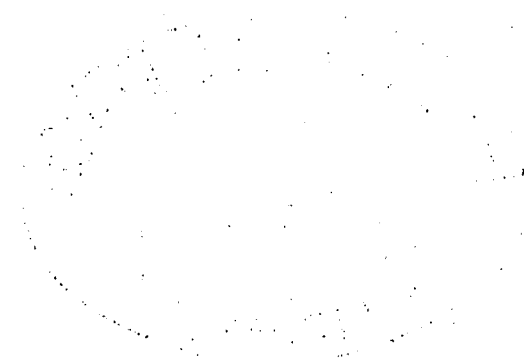


Series on Japanese Life and Culture, Vol. XIV

MODERN JAPANESE
ECONOMY
SINCE THE MEIJI
RESTORATION

By
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KOKUSAI BUNKA SHINKOKAI
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FOREWORD

The Society for International Cultural Relations (KBS) has, since 1961, been engaged in a program of publishing a series of books to be used as introductions to various aspects of Japanese life and culture.

We have come to see that the history of modern Japan over the past hundred years draws the growing attention of those who are interested in the culture and society of this country. The purpose of this booklet is to provide the foreign reader with an outline of the economic history of modern Japan since the Meiji Restoration in 1868. We believe that such an introduction as this will serve as a starting point for closer observation and deeper understanding of the individual features as well as the whole vista of the Japanese economy.

The author, Dr. Takahashi Masao, is professor *emeritus* of Kyushu University and a noted scholar of economics, especially in the field of statistical analysis of the economic structure of Japan.

The chapters included in this volume are based on a series of lectures given by the author at Kyushu University in the 1963 spring semester for visiting students from Asian countries.

Our acknowledgements are due to the author for furnishing the text and to Mr. Takeuchi Keiichi and Miss Urushibara Hideko for the revision of this English edition.

January 1967

Kokusai Bunka Shinkokai

EDITOR'S NOTE

The Hepburn system has been employed in the romanization of Japanese words. Also, in the personal names of Japanese people mentioned in the text, the family names precede the given names in accordance with the Japanese practice.

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CHAPTER I

Steps Leading to the Meiji Restoration

Origins of Merchant Capital

One day, during my stay in France around 1936-37, I called on a professor of economic history to ask his advice on how to start my study on French villages and farmers. This was the answer he gave me:

"Read the works of Balzac! They will give you a far more accurate picture of our rural life than the academic writings of the university professors."

He may have recommended this method only because I was a foreign student; but I would make a similar suggestion to those who are going to study Japanese history. An appropriate, well-written historical novel very easily enables lay people to understand the economic conditions of, for example, pre-Meiji Japan. At the least, it will provide proper orientation for further research.

In order to illustrate this point, and as a fitting introduction to a historical account of modern Japanese economy, I would like to introduce a long and telling excerpt from the novel by the late Tonomura Shigeru. This story is based on old archives of the Tonomura family and other authoritative works on economic history. Japan in the 1840's is the background of this story, and so, since the first year of Meiji was 1868, the time is about thirty years before the Meiji Restoration. The protagonist, Yoemon, and his brother are members of the family of the famous Omi merchants, Yoemon being a commercial capitalist of considerable wealth. The following translated passage from the book follows Yoemon on one or two of his periodical business trips:

[To Mr. Yoemon:] Ten thousand *ryo*.

"His Highness the Lord graciously acknowledges the accomodation, at a modest rate, of the above sum through the good offices of the above-mentioned person. The repayments shall be made on the last day of the eleventh month every year starting from the next, the year of the Secondary Serpent (1845) through the year of the Primary Tiger (1854) at one thousand *ryo* a year, with the payment of interest to be made every eleventh and sixth month at the rate of 6 per cent a month."

A monthly interest of 6 per cent means an annual rate of 72 per cent, a considerably high usurious rate! But the lord calls it a moderate one, because 10 per cent a month was the generally accepted interest rate in those days; and that proves how the merchants were wary of lending money to the feudal lords or *daimyo*. (As a precaution they usually demanded an authorization, duly signed by the *daimyo*, to collect the money directly from the peasants in the latter's domain in case the repayment fell in arrears.)

With his transaction vis-à-vis the lord of the castle of Annaka finished, Yoemon went back to his loan office in Takasaki, but soon set out on another trip; and, passing through the towns of Isezaki, Kiryu, and Ashikaga, he entered in a few days the weaving center of Yuki. The journey was favored with good autumnal weather. On the road he saw day after day swarms of red dragonflies fleeing to and fro in the azure of the clear sky.

From a building which apparently had been quite recently enlarged by the addition of an annex, Yoemon could hear the noise of busy shuttles. Passing under the eaves of the workshop, he entered the office of Mambei the weaver.

"Why, it is Yoemon-san! How nice to see you again!" With these words of welcome, a man in his forties raised his head from behind the low paper folding screen in front of his counter and stepped forward to meet him. He was Mambei, the owner of the workshop. "Bring quickly a tub of washing water, Torakichi!" he called to a servant.

After washing his feet the visitor said to his host: "Just a moment, Mambei-san. First of all I want to see your weaving shop."

"Oh yes! In that case, come along with me this way, please!"

In the workshop there were about twenty looms in operation. As the apron-clad women sitting with tucked-up sleeves pulled the cords, the shuttles ran clattering between the warps; and with each tread of their feet the reeds gave rustling sounds of silk. The shop was filled with the noise of those twenty odd

looms, and the weavers' hands kept on pulling the cords briskly and rhythmically.

The women at the looms nodded their greeting when Yoemon came in, and he returned an approving nod to each of them. On the warping machines, the yarns were wound from the spindles to the spools and from the spools to the drums; and as the drums slowly revolved the spindles and spools lined up in several rows spinning in quick motion.

"Oh!" Yoemon exclaimed with joy, looking at the movement of silk yarns that flowed like a mountain stream in the clear autumnal sunbeams coming through the windows.

Nishijin in Kyoto was the most advanced center of silk weaving during the Tokugawa era (1600-1867). Even after the 2nd year of Kyoho (1685) when the shogunate or *bakufu* enforced a drastic limitation on the importation of raw silk, the volume of native raw silk sent to Kyoto from other provinces grew year after year, resulting in an increased output there of silk goods.

The provinces of Joshu and Yashu, too, were famed silk raising districts from times of old, but division of labor had not developed so rapidly in those places as in Nishijin. As matters stood then, a peasant family would raise silkworms, reel yarns from the homemade cocoons, and sell a few rolls of silk goods that they had woven on their own. The *History of Textile Manufacture in the Ashikaga District* tells us that, "In those days there were few households specializing in silk weaving. Usually the peasants' wives and daughters raised silkworms, made silk yarns themselves and wove them on primitive looms as a side line when they were free from farming toil. . . ."

Since the middle of the Tokugawa era, however, silk weaving in those provinces developed in proportion to the rapid increase in the demand for silk fabric, and there gradually appeared people specializing in the industry. When they found that much more than their homemade goods were demanded by the market, those specialized weavers took to the practice of hiring by contract the hitherto independent side line weavers, providing them with raw silk, or employing peasants' wives and daughters as temporary workers. Thus the process of filature and weaving became separated, and small-scale weaving mills were born.

Nevertheless, it seemed that the demand for silk goods had reached a saturation point around the years of the Tempō era (1830-43), with the result that the textile industry in Nishijin came under pressure from newly developing

industries in other provinces. This is evidenced by the fact that the Nishijin weavers often petitioned the *bakufu* authorities asking for the imposition of quantitative as well as qualitative restrictions on the so-called "provincial fabrics."

The following table shows the approximate numbers of weaving mills in Nishijin at different periods of the Tokugawa era:

Enkyo	(1744-47)	630	
Bunka	(1804-17)	1,117	
Before the Tempo Reform	(1841)	2,217	
The 3rd year of Kaei	(1850)	898	(including 82 mills in suspended operation)

Undoubtedly one of the causes for the abrupt decline of the textile industry in Nishijin after the promulgation of the Tempo austerity program by the *bakufu* must have been the ordinance prohibiting the use of silk for commoners. Also it is true that the abrogation of the purchase monopoly regarding raw silk which had been chartered to the commission agencies of raw silk in Kyoto in the 20th year of Kyoho (1735: "Henceforth those who, not being among the afore-mentioned agencies, buy raw silk directly from the provinces shall be strictly punished.") was an additional blow to the Nishijin weavers. But the reason that they could not recover from those blows even in the Kaei period (1848-54) may probably be found in the increasing pressure of the "provincial" textile industry.

Yoemon was entertained with supper in the guest room at the back of Mambei's living quarters.

"These pickles in mustard taste very good, Mambei-san!"

"I doubt if they agree with the refined palate of Edo."

"Yes, they are delicious. Don't think lightly of such a good cook as you have in your wife, Mambei-san! I like this fish cooked in caramel, too."

"My wife shares my opinion that we are fortunate to be able to serve a meal to such a responsive guest as you, Yoemon-san. You always eat with zest even such plain foods as she prepares."

"Oh no! Maybe it's because I am a born glutton."

"Not at all! We are rather thankful for your not standing on ceremony. By the way, did you come this time straight from your home?"

"Well, while I was home, I heard a rumor that Lord Echizen will again be appointed as lord chancellor, and so. . . ."

"You are quick in getting inside information as usual!"

"But good luck does not always repeat itself. All my struggling for money-making came to nothing. I made myself a butt for laughter, ha, ha, . . ." Yoemon's sides shook with laughter, and he added good-humoredly: "The price of raw silk, as you see, stays quite steady."

"Well, I didn't expect that it would be so steady."

"But it's not surprising. We should be surprised rather, if the prices changed by a mere order of the government."

"How true! Lord Echizen must have learned from the failure he met with last time."

"The real customer for a merchant is not a noble lady who buys an under-skirt of scarlet silk crepe. Hundreds of thousands of common people who buy one plain loincloth apiece are his true customers. The market price is just like the stream of the River Tone. Not even government orders can change its natural course!"

"Quite so, Yoemon-san!"

"Let's not forget too, that commission agencies were born out of necessity for the convenience of people. You can't force them to disappear by mere directives. But once the necessity is gone, they will exist no more. Isn't the present sad plight of those chartered merchants who have been accustomed to the protection of the *bakufu* the best proof of that?"

"That reminds me of the rumor that the weavers of Nishijin are now in a tight spot."

"Of course, they are. But it seems the commission merchants over there are hurt even more than the weavers."

"In our district, too, a lot of weavers preferred this year to do business with the agencies in Osaka."

"They did! Merchants must behave like merchants. I would rather say that those who rely on government protection in everything are not worthy to be called merchants."

"No, they aren't! They despise us as makers of 'provincial fabrics', and yet they are constantly petitioning the *bakufu*."

"It is the current of the times. You can't go against it. If one's fate is to go against it, it's the end for him. Hold on, Mambai-san! I am ready, my dear friend, to help you in every possible way. Please tell me whenever you need my help!"

"Your kind words make me feel as secure as if I were in a great ship!"

At that moment a girl of about sixteen came into the room with a candle-stand, which made the guest aware for the first time that it was already getting dark in the room and insects were busily chirping in the garden. The girl put the candle-stand on the tatami floor and made a deep obeisance.

"This is Kayo, my daughter," said Mambei.

"My goodness!" said Yoemon with a puzzled look, "I think I saw her in the mill."

"Yes, you did. She is doing her bit on one of my looms."

"I am glad to hear that. You have a wonderful daughter, Mambei-san. I must get busy looking for a nice young man to be her husband."

"Thank you, sir! Please drink some more *sake*!"

"Will you drink from this cup of mine, dear friend?"

Flap! Something struck against the paper screen facing the garden. Then the silvery voice of an insect began to sing just outside the room. But without paying much attention to it, the two merchants kept on toasting each other and exchanging loud laughter.¹

To complete this introductory account of an age, some further explanation of the Omi merchants should be made here. I have said before that Yoemon and his brother, Kobei, were Omi merchants. The province of Omi was located on the southeastern shore of Lake Biwa. Its climate was warm and mild, its land fertile. Moreover, it lay in the vicinity of Kyoto, Nara, Sakai, and Osaka, the historical centers of Japanese culture. It is believed that in ancient times this region was first colonized by immigrants who had come from the Korean Peninsula and the Chinese continent with their advanced sciences and technical skills. Therefore, it was only natural that new industries developed there much earlier than in other provinces. That industrial development was accompanied by progress in commodity and money economy, too, was in the natural course of events. At first, a chance "surplus" of goods probably had to be disposed of, but the profit obtained by its sale acted as a stimulant to increased output, and this gradually brought about an enlargement of industrial production and exchange of commodities. And, of course,

¹ Tonomura, Shigeru. *Ikada* ("The Raft," Tokyo: Shinchosha, 1961), pp. 117-23.

progress in commodity and money economy is unthinkable without the activities of the merchant.

In this way, Omi Province had been growing into a great center of industry and commerce ever since the Nara (710-84) and Heian (794-1092) periods. By the time Christopher Columbus discovered the American continent (the end of the 15th century), there already existed in Omi Province several powerful merchant guilds. They were paying tribute to Lord Sasaki, a vassal of the Genji clan, in exchange for his "protection." The commodities those merchants dealt in were: drapery, vegetable oil, salt, seaweeds, dried laver, earthenware, circular boxes, flax fiber, farming tools, hardware, paper, and agricultural products. There was even a guild of horse dealers who were engaged in the purchase and sale of horses and cattle.

The Sasaki clan, or the Omi Genji, under whose patronage the industry and commerce of the province had prospered, was overthrown by Oda Nobunaga in the 11th year of Eiroku (1568). Even up until that time the Omi merchants had presumably been extending their commercial connections in other provinces, in their capacity as guild merchants, or at least as travelling merchants who were of a lower status. But having lost the protection of the Sasaki clan, so it is told, the Omi merchants found it necessary to extend their commercial activities on a nation-wide scale.

The first among the ancestors of our friends, Yoemon and Kobei, who went out as travelling merchants, was Yoemon of the fifth generation of the Tonomura family. This was in the 13th year of Genroku (1700), about a century after Tokugawa Ieyasu had established the shogunate in Edo (1603). Aged twenty, Yoemon formed a partnership with a farmer's son in the same village with funds raised by borrowing money from several drapery agencies to add to their own savings; and loading a pair of horses with diverse goods they travelled as far as Osaka and Himeji to the west, and to Edo in the east. They peddled their commodities at every stage on the road, each trip ending in loss or profit depending upon their luck. The family records state that it took thirty days for each journey to and from Edo. Since the policy of the *bakufu* was one of not permitting peasants to neglect farming, the basis of the feudal economy, the sons and

grandsons of the fifth Yoemon used to apply for travel passes on the pretext that they intended "to engage in itinerant trading as a side line to farming." But as time went on they took to the practice of letting their servants or hired hands do more and more farming in their place. Generation after generation, this sort of practice was carried on until by the time of our friends, Yoemon and Kobei, the Tonomura family had grown into a powerful commercial house.

More than a hundred years prior to this (1712), the shogunate had chartered ten merchant guilds specializing in the trade of important goods imported by the city of Edo. Those were: (1) lacquer ware, (2) silk, drapery, and flax cloth, (3) haberdasheries, (4) medicines and sugar, (5) hardware, (6) cotton goods, (7) *tatami* facing, (8) vegetable oil and paper, (9) paper and candles, and (10) *sake*. Our Yoemon belonged to category (2) being a member of the group of merchants who dealt in provincial piece goods and Kyoto-made draperies. When there was a sudden drop in the market price of silk as a consequence of the *bakufu* ordinance prohibiting the use of silk cloth, the two brothers bought at bargain prices large amounts of raw silk goods at various places in Joshu, Shinshu, Nagoya, and so on, all along their way home from Edo to Omi, and piled up huge stocks of those goods at the places of purchase. That is, in present-day economic terms, they made stock investments. It was a matter of routine for them to shuttle back and forth between Edo and Osaka. They were even extending their activities to Hokkaido.

From Uruga Harbor, which was to be visited by Commodore Perry some ten years later, Kobei embarked for Hokkaido on a sailing vessel of a bulk of 905.6 *koku* (about seventy tons) equipped with a sail of twenty-two *tan* (about ten meters wide). The ship's cargo consisted not only of cotton and silk goods, flax fiber and cloth, floss silk (made in Omi and Iwashiro), whipped cotton (for quilting *kimono* and bedclothes), but also of rice, *sake*, and salt. The purpose of the voyage was to trade those textile products and provisions for the sea products of Ezo Island (Hokkaido), such as dried herring, herring roe, and fish meal for fertilizer. Also included in the ambitious plans of Kobei were the importation of "burning stone" (coal) from Hokkaido, experimentation in growing upland rice

plants, potatoes, wheat, millet, Deccan grasses, soya beans, and pumpkins on that island, and the opening of a branch store at Hakodate.

Incidentally, upon returning from Hokkaido in his ship, Kobei happened to land one day at Yokkaichi (in Mie Prefecture), a city now being developed as a major industrial center with a huge petroleum industry as its core. In emergencies, the ship used the Shiogama Harbor (in Miyagi Prefecture) as a port of call, and a land courier was despatched to the merchants' headquarters in Edo. The captain had a compass and an "octant" for the voyage, but the ship was driven by wind and manpower. In the novel, we are told that this trading ship chances to come across an American ship somewhere off the coast of Hokkaido. The latter is a "large iron vessel driven by steam power, and the hooting of its foghorn could be heard from afar." The crews of both ships join in a fraternal banquet on the American boat, at which a "red-colored wine" is served in *gyaman* (glass) cups. When Kobei presents them with women's underwear of scarlet silk crepe, the Americans jump with joy, donning the garments by turns and crying "Silk! Silk!" In return the Japanese were given a revolver, a telescope, thermometers, medicines, velvet, and other exotic gifts.

Thus does the story of the background of Yoemon's family, and the description of its activities in the novel, enable us to obtain a lively and accurate picture of Japan before the Meiji Restoration.

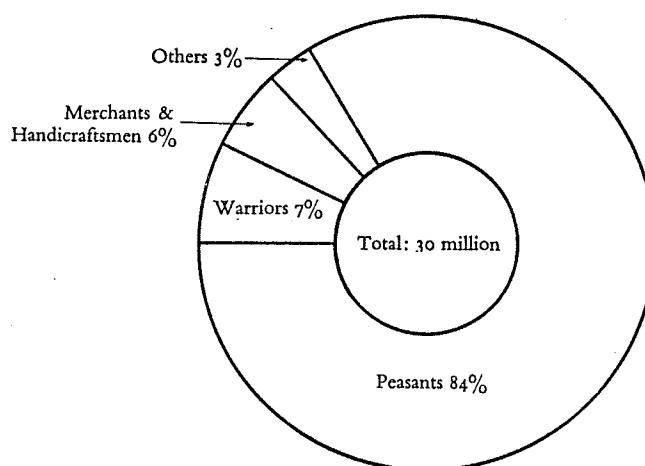
Feudal Japan

Japan in the latter part of the Tokugawa era resembles present-day Japan in certain respects, though not in others. For example her territory was of about the same size as it is today. The present Japanese territory consists of four islands, Hokkaido, Honshu, Shikoku, and Kyushu, with numerous smaller islands scattered around them. This was exactly the case a hundred years ago. The areas of these islands in square kilometers are: Hokkaido, 78,000; Honshu, 231,000; Shikoku, 18,000; and Kyushu, 39,000, making a total of 368,388 sq. km.

The principal changes since then have been in population as well as in political, economic, and social conditions. How those changes have

occurred shall be made clear in the following pages of this book; here I want to mention merely the difference in the size of population. Tokugawa Japan was a country with a population of about thirty million—whereas the population in 1965 was ninety-eight million. The population of the Tokugawa period, which changed little throughout that era, virtually lived on the three main islands, Hokkaido not yet having been settled. Although a few adventurous merchants such as Kobei were beginning to go on expeditions there, Hokkaido was then only sparsely populated by the Ainu and was a frontier for the Japanese just as the American West had been for the Americans.

FIG. 1 CLASS DIVISIONS



Now let us look at Fig. 1 and see into what classes or social groups Japan's population was divided. The *samurai* (warriors) formed the ruling class. This had a rather complicated inner structure which can be summarized as follows:²

The battle of Sekigahara (1600) put an end to the struggle for hegemony

² Kitajima, Masamoto. *Edo Jidai* ("The Edo Period," Tokyo: Iwanami Shinsho Library, 1958), p. 85.

³ See Fujino, Tamotsu. *Baku-han Taiseishi no Kenkyu* (Study on the History of the Shogunate Clan System," Tokyo: Yoshikawa Kobunkan, 1961), pp. 68-9.

among the *daimyo* (feudal lords) and finally established the supremacy of the Tokugawa family. In the reorganization and reallocation of fiefs that took place after the war some *daimyo* lost their fiefs, others were forced to move to other domains strategically less important; thus, the locations of *daimyo* domains were rearranged on a nation-wide scale. On the other hand, the branches and hereditary vassals of the Tokugawa family were awarded new domains in the Kanto region and the neighboring provinces of Owari, Mino, Ise, Omi, Echizen, and Iwashiro. The formation of the shogunate with the *han* (often translated as "clan" by Western Japanologists) administration as its basis was thus completed. In other words there emerged a centralized body politic with the feudal hierarchic relation of the Tokugawa family—the *daimyo*-retainers-peasantry structure—as its basic framework. At the summit of this hierarchic pyramid sat the Tokugawa family with its three branches, the Owari, Kii, and Mito. Their domain covered almost a quarter of the country and included the great trade centers of Edo, Osaka, Kyoto, and Nagasaki.

The remaining three-quarters of Japan was divided up among *daimyo*, whose fiefs were the so-called *han*. Among them, the hereditary vassals of the Tokugawa family, who were promoted to lordships of clans after 1600, were called *fudai daimyo*, and their fiefs were mostly in the provinces surrounding the Kanto region where Edo, the seat of the shogunate, was located, or in other strategically important districts. Those *daimyo* who had formally been the followers of the Toyotomi family and had later submitted to that of the Tokugawa were classified as *tozama daimyo* (outside lords). Some of them had large domains but these were located in distant parts of the country and put under the strict surveillance of the shogunate.

The administrative structure of Tokugawa Japan as explained here will be easily visualized when expressed in terms of the rice revenue allocated to the different kinds of domains.

The lords were classified as great or lesser *daimyo* in accordance with the rice revenue they paid; thus, in the Genroku period (1688–1703), for example, 141 of them were small *daimyo* raising from ten to fifty thousand *koku*; fifty-four were middle-sized *daimyo* raising from fifty to one

TABLE I
RICE REVENUES IN THE TOKUGAWA PERIOD

	Amount of rice revenue in <i>koku</i> *	Percentage
The Imperial Family	152,302	0.5
Imperial Court	111,151	
Court nobles	41,151	
The Shogunate	6,819,716	25.8
County magistrates	3,281,578	
Governors of distant territories	907,593	
Governors of Kyoto, Osaka, Kofu, etc.	24,800	
Fiefs of retainers of the <i>shogun</i>	2,606,545	
Domains of the <i>daimyo</i>	19,160,000	72.5
3 Tokugawa branches	3,000,000	
Others	18,860,000	
Estates of shrines and temples	512,235	1.2
Total	26,433,097	100.0

* *Koku*: A unit of dry measure equalling 180.5 liters or 4.96 British bushels; one *koku* of rice weighs about 150 kilograms.

hundred thousand; and forty-five were the great *daimyo* whose revenues were over one hundred thousand *koku*. Each *daimyo* had a group of retainers under him, which formed the military power in his domain, and also provided him with the officials needed for *han* administration. These warriors or *samurai*, too, were organized in hierarchic order in accordance with the amount of the rice stipends they received from the lord.

The percentage of the *samurai* class of the Tokugawa era was only 7 per cent of the total population. How could this minority in feudal society rule and exploit the people who made up more than 90 per cent of the nation? The answer to this question is provided by the unwritten constitution of feudal society. Had it been a written document, the main articles in it might well have read as follows:

(1) Society is divided into two castes: one being that of the *samurai*, the other that of commoners. Caste is a hereditary institution, so that no one is permitted to change from one caste to another.

(2) Military affairs are the monopoly of the *samurai* caste. Commoners are not permitted to bear side-arms, nor to have surnames.

(3) Political rights are also the monopoly of the *samurai*.

(4) The hierarchical system is strictly maintained within the *samurai* caste. The Tokugawa shogunate, in itself the mightiest among the feudal ruling powers, wields absolute power over all *daimyo*, large and small, in the whole country. Each *daimyo* wields similar power in regards to the retainers under him. Within the groups of retainers, also, a rigid hierarchy prevails.

(5) Generally speaking, there is no freedom of choice or change of abode, either for the *samurai* or for commoners.

(6) Generally speaking, there is no freedom of enterprise, choice of occupation, employment of people, or making of contracts.

(7) Generally speaking, there is no freedom of religion, thought, learning, speech, printing, or publication.

(8) Generally speaking, there is no freedom of demonstration, assembly, or association.

(9) Types of dwellings, garments, personal outfittings, meals, manner of speaking, and thought befitting different social standings are to be adopted as prescribed by the powers that be.

Furthermore, land, the most important factor of production in feudal society, belonged to the *ryoshu*, this title meaning literally a "master who is in possession of land and people." A commoner could claim no title to landed property, to say nothing of the freedom of its sale, purchase, mortgage, or lease. Peasants, who made up the greater majority of the commoners, were bound to the land in accordance with the provisions of the above-mentioned articles (4) and (5) of the unwritten law, and were forced to pay annual rice tributes to the lord.

Let us see in further detail how those *daimyo* and *samurai*, who constituted only 7 per cent of the population made their livelihoods. Theirs was not only a ruling, but also an exploiting class. They lived by exploiting a vast mass of people engaged in agriculture, industry and commerce. At first, most of the retainers of the *daimyo* were given their own fiefs, estates of differing sizes with peasants attached to them. But as time went

on, more and more came to live in the lord's castle-town and to draw rice stipends from the *han* revenue raised from the peasants in the form of rice tribute. The situation differed from region to region, so that it is impossible to say which form was predominant, the awarding of fiefs or the payment of rice stipends. As a rule, the peasant's tribute was paid in kind, but there were cases where it was in money or in labor.

Certain factors of agricultural production such as farming tools, seed, and fertilizer were owned by the peasants themselves, and the labor force was provided by members of their own families. Therefore, they were not slaves in the strict sense of the word; but compared with the peasants of today, their freedom was extremely limited. Exploitation of the peasant was carried out in the following way:

FIG. 2 DIVISIONS IN PEASANT ECONOMY

For production	For subsistence	Surplus for exploitation
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Let us take, for example, a peasant's economy with one *chobu* (about one hectare divided in ten *tan*) of cultivated land. And let us suppose that the yield of the land in terms of the rice crop is one *koku* (about 5 bu.) per *tan*, or ten *koku* in total. In that case each section of the above figure represents two *koku*. The first one fifth of the crop, or two *koku* must be spent for agricultural production. A part of it, such as seed and forage, is produced on the peasant's farm but the rest, which may take the form of farming tools and fertilizer, must be bought by him with the money earned through the sale of his farm products. The next two sections representing four *koku* are the parts needed for the subsistence of his family. As in the first section, it consists of the things produced on his own farm and those bought from outside. Lastly, after subtracting these two components, one for production and the other for subsistence, there still remain four *koku* represented by the last two sections of the figure. This is called "surplus"—a part without recourse to which the family can keep on living and producing year after year. What the *samurai* class exploited

was this part of the peasant's crop. What particular form this surplus actually took does not matter very much: actual labor, rice, or some other kind of farm product or cash. If we suppose that the exploitation of the peasantry, which consisted of 84 per cent of the total population, by the *samurai* class representing 7 per cent, was made according to the ratio exemplified here, it follows that the warrior had on the average an income about twelve times as large as that of the peasant. The rate of exploitation shown in Fig. 2 used to be calculated "4 to the lord and 6 to the people" in former days; but ratios such as "5 to 5" and "6 to 4" were not uncommon all over the country.

Restrictions suffered by other commoners who were engaged in activities outside agriculture such as commerce, industry, or finance were, owing to the nature or relative importance of their calling in a feudal society, not so oppressive as in the case of peasants; but generally speaking they, too, had to act in accordance with the above-mentioned "constitutional" provisions. Although private ownership of productive factors and the means of subsistence were permitted them, these were far from complete. Let us see now, how exploitation was practised in regards to this group of people, who were called *chonin*, meaning "townspeople."

Among the *chonin*, those who were engaged in industry can be called "handicraftsmen," because they worked with their hands using tools but not machines. Goods that a handicraftsman produced, if translated into abstract terms, can also be divided into three parts as in the case of the peasant's crop. His surplus too was exploited by the *samurai* class; but, since in his case it was sometimes difficult to draw a precise line between the parts which were needed for production and subsistence and that which made up the surplus, and since the productivity of his labor was, generally speaking, lower than that of the peasant, the rate of exploitation might well have been lower in his case than in that of the peasant.

Lastly, there comes a group of townspeople who were engaged in commerce and finance. Essentially, the peasant's economy was based on self-sufficiency, but at least part of the goods needed for production and the subsistence of his family had to be supplied from outside. Most of

these goods came from the handicraftsman, but as a rule the latter depended on the peasant for supplies of raw material and food. In this way, between the handicraftsman and the peasant who were socially of an equal standing as common men, there existed an exchange of products, and, therefore, of commodities. The merchants were the people who made a living by helping this process of commodity exchange. Now, if what remained in the hands of the peasant or handicraftsman had been limited to the amount that was absolutely necessary for his production and subsistence, the merchant would have been unable to receive a portion of the surplus as the reward for the service of making the exchange of commodities possible. The merchant would have been allowed only a meager living, should a member in the peasant's or handicraftsman's family have specialized in the exchange of commodities. In other words, after subtracting the total cost of purchases from the total sum of gross sales in one year, there would remain in the hands of the merchant only the amount necessary for "production" —or rather for "business operation" in his case—and subsistence, leaving no room for a "surplus."

However, we can make our picture more realistic by assuming either that the *samurai* did not exploit the whole amount of the surplus, or that the part left in the hands of the peasant still contained a little more surplus. In that case the merchant too would be enabled to exploit that portion of the surplus, as happened in actuality. The merchant did exploit the surplus produced by the peasant and handicraftsman, which means that the merchant too had a surplus that could be exploited by the *samurai* class.

As exchange of commodities is conducted in an ever increasing measure, of necessity there comes into being money, as well as the financier—the merchant who deals in money. His job is to provide the services of money order and money changing. The problem of whether or not the financier can draw surplus from the labor of the peasant, handicraftsman, or merchant as a collateral for these services may be solved just as in the case of the merchant. In actual life the financier did exploit a certain portion of surplus produced by the peasant, handicraftsman, and merchant. This was quite obvious in the particular instance when he used his money

as interest-bearing capital. In this way the financier was no exception in that he too had a certain amount of surplus that could be exploited by the *samurai* class.

But the list of various sorts of exploitation carried on in a feudal society does not end here. The *daimyo* or *samurai* had to sell the products they exploited from the commoners as commodities, which they did of necessity through the merchant.⁴ In a business transaction like this, the merchant could, as he actually did, exploit the *samurai*. And the same thing happened when the *daimyo* or *samurai* availed himself of the service of the financier by borrowing his money—as a certain *daimyo* did from Yoemon in our story.

Thus the types of exploitation in the feudal society we have enumerated are:

- (1) Exploitation of the commoner by the *samurai*
- (2) Exploitation of the commoner by the commoner through exchange of commodities and money and
- (3) Exploitation of the *samurai* by the commoner (as a rule by the merchant or financier)

However, there is one more item to be added to this list; whether he was a *samurai* or a commoner—and in the latter case, whether he was a peasant or handicraftsman or merchant—it may have happened that someone had enough surplus accumulated in his hands that enabled him to operate a factory, just as in the case of Mambei the weaver in our story, and hire workers in order to exploit them. If we take into consideration factory production by the commoner exclusively, our additional item may be worded:

- (4) Exploitation of the commoner by the commoner through hired labor in the process of production

Lastly, let us pose ourselves this question, that is, what was the object-

⁴ Even in the early part of the Meiji era (that is, while the new government was still collecting taxes by the traditional system inherited from the shogunate), the table of government revenues in 1872 contained the following items: rice, soya beans, beans, red beans, wheat, millet, barnyard millet, rape seeds, sesame, buckwheat, lacquer, floss silk, salt, gold, sumac wax, wax tree seeds, paper mulberry bark, persimmon tannin, agate, copper, silver, sugar, etc.

ive for which these various types of exploitation were conducted, whether for consumption or for expansion of production or business? The answer is simple enough. Because of the feudalistic nature of the Tokugawa society, the type (1) of the above list was the predominant form of exploitation, and is nothing else but exploitation for consumption.⁵ For the purpose of studying the economic aspect of Tokugawa Japan, it is essential to grasp the overall process of these exploitation relations—actions and counteractions to exploit as much as possible and to be exploited as little as possible—as a dynamic whole, and to clarify how the surplus, which was both the object and the result of exploitation, was divided up and disposed of.

New Wine In The Brewing

The effectiveness of the unwritten constitution of feudalism rested on the presumption that Japan would remain unchanged under the Tokugawa regime; but beneath the surface a new wine was in the brewing. Developments in economic life were in progress. The rule of the Tokugawa family having been stabilized with a state of peace maintained for a long period, agriculture (which was knitted together with various kinds of “industry” that were to be separated from it and become independent as time went on) was developing. Land under cultivation was expanding; even today we find place-names with the term *shinden* (new or reclaimed fields) all over the country. Innovations in farming techniques were introduced, and crops were both improved and diversified. As a consequence of the increase in agricultural production, the share remaining in the hands of the peasant had grown in spite of the fact that the lion’s share was still claimed by the *samurai* class.

The peasant’s economy was based on the principle of self-sufficiency; but from time to time he bartered his products for the goods he could not produce. As the productivity of agriculture kept on increasing, and as

⁵ The Japanese feudal society is a “traditional society” of the kind defined by W. W. Rostow in his famous analysis, the “Stages of Economic Growth.” In this work he points out that the primacy of agriculture and the rigid hierarchical social structure were the outstanding characteristics of this society.

more and more "surplus" came to accrue in the peasant's economy, the exchange of commodities was stimulated and expanded to a considerable degree. And the increase of exchange acted as a stimulant for increased agricultural production.

The same was true for industry. Similar developments were seen not only in the branches of industry directly connected with agriculture, but also with those independent of agriculture.

And these developments in agriculture and industry, together with those in transportation and communication, contributed to the growth of a commodity economy and of urban life. In this respect no small part was played by the biyearly residence system in the Tokugawa era, according to which every *daimyo* with his retainers had to travel to Edo every other year, returning to his domain the next, his wife and family being forced to reside in Edo semi-permanently. The *daimyo*, who travelled in large processions to and from Edo, contributed in no small measure to these developments as consumers of goods, propagators of the desire for new kinds of products, and money-spenders. In other words, the biyearly residence system, which had been at first initiated for the purpose of strengthening the Tokugawa regime, was later turned into a factor accelerating its decay. As far as the main highways were concerned, there were numerous towns along them, so that it was not difficult for a traveler who had left a town in the morning to reach another where he could find an inn to stay overnight.

But I do not mean that these developments were beneficial to every member of society without discrimination. On the contrary, they had an effect of stimulating differentiation or division among the people. The town dwellers, for example, came to be divided into several groups, such as owners of land and houses, owners of houses only, those people who lived in rented houses, those who were boarders in houses rented by others, and lastly those who had no homes. Quite naturally these differences also meant difference in economic power and, consequently, in social standing. And a similar process of differentiation was also taking place, though in a different guise, among the peasants in the villages.

In short, the gap between the rich and the poor became more distinct,

though there were of course intermediate stages between the two. Hired labor was beginning to be used, though on a modest scale, in commerce, finance, and industry. Our friends Yoemon and Kobei seem to have had a considerable number of employees. Hired labor was a decisive factor in the development of industry and, especially, mining. Neither machinery nor man-generated power was yet in use, but there was born a mode of manufacturing wherein a number of hired hands worked with tools under one master. This mode of production is called *Manufaktur* in the sense of a factory or industry using hand workers, and was the forerunner of modern industry, or a factory using machinery. We have seen a sample of *Manufaktur* in the weaving mill of Mambei which was inspected by Yoemon. All workers did not perform the same job; the process of production or processing was divided into several stages. In this connection Adam Smith's well-known example of a needle factory might be recalled as a handy illustration.

In the case of agriculture, hired labor was employed only in rare instances. We know that one of the ancestors of Yoemon had to take a pledge not to neglect farming in order to obtain permission to leave his village for a peddling tour. The answer to the question as to who did the farming during his absence is already known to us. But hired labor was rather exceptional as far as agriculture was concerned. Division of the rich and the poor or differentiation of classes in the village took quite a different form; that is, among the peasants belonging to the same caste of commoners there appeared a relationship consisting of landlord *versus* tenant. You may doubt that it is proper to say that there arose a tenant system in a feudal society which did not recognize private ownership of land. Of course this thesis is questionable when viewed from the standpoint of pure logic, but it is not so from that of the logic of actual life.

As I said before, the development of productive powers had brought about a condition wherein there remained in the hands of the peasant, even after he had paid his rice tribute, a certain amount of surplus, that is, a margin over and above the means of his production and subsistence. Owing to the fact that land was the major factor of agricultural production, this surplus was regarded to have accrued from the land, and there-

fore should be allowed to revert to it. Since, at that time, in economic activities other than agriculture and forestry, a profit over and above the outlay, or an interest over and above the capital fund, was already a generally accepted concept, it was only too natural that the mother earth of agricultural production was deemed to have born a "child."

Let us take two peasants, A and B, for illustration. And let us suppose that A has got into financial trouble because of long illness, natural disaster, or expenditure for marriage and obtains a loan in kind or in money from B. Let us also assume that he has offered all or a part of the surplus accruing from the land cultivated by him as security for the loan. Such a transaction might be just a temporary one. The debtor-creditor relation between the two peasants might cease to exist as soon as the repayment of the capital fund and interest was completed. But if we take into account the fact of offering security or of mortgaging land, and the fact that pawnbroking was becoming a thriving business at that time, it is highly probable that a peasant in a position like A's would "pawn" his land for an indefinite period of time or permanently to a peasant in a position like B's, or to some rich man in town. It might be well to add some more details in order to complete the picture, but leaving this job to my readers, let me further assume that, by force of certain circumstances, an agreement is reached whereby B receives from A not only the interest or "child of the land" but also the tribute A has to pay to the feudal lord, and pays it himself in the latter's place. If this sort of thing is done, only B would remain as the object of concern for the feudal lord, who has interest in the peasant only as a tribute-payer; and A would lose all significance in the lord's mind.

A feudal lord demanded rice tributes from his peasants on the basis of "dominium" or feudal right; his right to exploit a peasant was sanctioned by public authority. It was not based on a contract between the persons who were equal in their social and legal status as is practiced in a commodity or money economy. However, the right of B to demand payment of interest or "child of the land" from A is not based on public authority as in the case of the feudal lord, but on a contract between persons who are, though unequal in their economic standing, equal in their

social and legal standing. This may well be defined as a free contract between persons under a private ownership system. If you accept this interpretation, you will understand why I said above that the land tenancy system came into existence in the Tokugawa era.

Non-recognition of private ownership of land, and consequently of its sale or lease, was a reflection of the state of affairs in which the entire "surplus" of the peasant was seized by the feudal lord. As long as that state of affairs actually continued to exist, it was not possible for private ownership to materialize. But now as the result of the developments just explained, it became possible. In the instance where a rich villager had reclaimed land on his own account and hired it out for cultivation to poor peasants, the existence of the landlord-tenant relationship was apparent from the beginning. In any case, it is maintained that, at the end of the Tokugawa era, about one third of the cultivated land in Japan was already under tenancy.⁶

The spread of the tenancy system as well as that of hired labor was decidedly against the constitution of the Tokugawa regime, but this trend had taken a more serious turn. Here I would like to borrow a footnote from Herbert Norman's excellent study on Meiji Japan. It lists the property confiscated by the *bakufu* from Saburoemon Yodoya, the great rice merchant in Osaka, during the Genroku period (1688-1702):

The confiscated property included 50 pairs of gold screens, 3 toy ships made of jewelry, 373 carpets, 10,050 *kin* of liquid gold, 273 large precious stones and numberless small stones, 2 chests of gold, 3000 large gold coins, 120,000 *ryo* of *koban*, 85,000 *kwamme* of silver, 75,000 *kwan* of copper money, 150 boats, 730 storehouses, 17 storehouses for jewelry, 80 granaries, 80 storehouses for beans, 28 houses in Osaka, 64 houses in other places, a rice stipend for one *daimyo* amounting to 332 *koku* and 150 *chobu* of cedar forest.⁷

⁶ The problem of how to define the landlord-tenant relationship in Japan has been one of the most controversial among students of Japanese economy. My opinion is that the interpretation presented here is most helpful for an understanding of the situation after the Meiji Restoration, as well as of the circumstances which led to land reform after World War II.

⁷ Norman, E. Herbert. *Japan's Emergence as a Modern State: Political and Economic Problems of the Meiji Period* (New York: Institute of Pacific Relations, 1940), p. 107.

Takekoshi Yosaburo's book⁸ which was quoted by Norman as an authoritative work, gives a long list of names of such big merchants as this with the amount of wealth possessed by each. The expedition to Hokkaido by Kobei, the merchant in our story, also provides us with an example of the business activities engaged in by those people. The Japanese economy at that time had already developed a nation-wide market to a considerable degree. Circulation of commodities and journeyings of merchants, together with the credit system consisting of money deposits, drawing and cashing of drafts, and the remittance of money to distant places, were developing. And in each large town or branch of economy the number of "big businesses," measured by the standard of that time, was growing to a considerable size.

People in those big concerns were in most cases more prosperous than *daimyo* or *samurai*. Consequently, they were often more educated and refined. It was in the natural course of things that those people wanted to increase their economic wealth and power, to raise their social standing accordingly, and to attain the highest possible cultural level.

What was to be done in order to push this development further?

Or, to put it in other terms, what were the obstacles against such a development? Legally speaking, these obstacles were the "constitution" of feudalism, as previously depicted, and those institutions and practices sanctioned and supported by it. To be more concrete, the Japanese nation had to do away with the small clan states that numbered more than 250, and establish in their place a modern centralized state in which the Japanese economy could become a unified, single market or economic whole—an arena wherein commodities, capital, and men could move around freely and on an equal basis in accordance with the law of commodity economy, with that of demand and supply; in other words, at least in this limited sense, in a "democratic" way.

The new wine was in need of a new wine bag.

⁸ Takekoshi, Yosaburo. *The Economic Aspects of the History of the Civilization of Japan* (London: George Allen & Unwin, 1930), II, 360-2.

Outside Pressures

When we look at the possessions in the east of our great maritime rival, England, and of the constant and rapid increase of their fortified ports, we should be admonished of the necessity of prompt measures on our part. . . . Fortunately the Japanese and many other islands of the Pacific are still left untouched by this unconscionable government [i.e., Britain]; and some of them lay in the route of a great commerce which is destined to become of great importance to the United States. No time should be lost in adopting active measures to secure a sufficient number of ports of refuge.

So wrote Commodore M. C. Perry before his historic expedition to Japan (1853). At that time Perry and others had also plans to take Formosa, the Ryukyu and the Bonin islands.

The maintenance of the isolation policy, which had been strictly observed by the Tokugawa shogunate for more than two centuries, was no longer possible in the face of Perry's fleet. The "Treaty of Peace and Amity between the United States and the Empire of Japan" was signed in 1854, and was followed in 1858 by commercial treaties (the provisional treaties of Ansei) with five Western Powers. Perry's words quoted here were taken from E. H. Norman's *Japan's Emergence as a Modern State*, which I have already cited.

For a more detailed and fundamental study I would recommend a work by Ishii Takashi;⁹ but here I would rather like to let Norman talk on the world situation which constituted the background for the opening of Japan to foreign intercourse and, eventually, contributed to the downfall of the Tokugawa regime. I ask you to read the following passage keeping in mind the banquet Kobei's crew had with the American sailors off the coast of Hokkaido.

Geography was an ally of exclusionist Japan. Of all Asiatic countries it was farthest removed from the reach of the great European naval powers. It was protected from the land power of the Romanov Empire by the vast half-explored steppes of Siberia, while before the development of California and

⁹ Ishii, Takashi. *Meiji Ishin no Kokusai-teki Kankyo* ("International Environment of the Meiji Restoration," Tokyo: Yoshikawa Kobunkan, 1957).

the building of the Panama Railway, the United States, the power which was destined finally to open Japan, was even farther from eastern Asia than was Europe. Nevertheless it was clear to both the Western traders and Japanese statesmen that Japan, by relying on this accident of geography, could not forever avoid the day when some power would wait outside the closed gates, demanding an answer to the imperious command that Japan either be opened to world trade and intercourse or suffer the fate of India or China. Long before the arrival of Biddle and Perry, the rulers of Japan had good reason to be alarmed at the interest their country aroused in the minds of European navigators and empire-builders.

Russia, after extending her power to the shores of the Pacific, was to be most constant specter troubling the sleep of feudal Japan. At the end of the 18th century the *Bakufu* felt concern at the southward gaze of Russia as she moved down into Saghalien and threatened the island of Yezo (modern Hokkaido). The Russians made persistent attempts to open Japan, partially at least, and the trips of Laxman (1792), Rezanov and Krusenstern (1804), and Captain Golownin (1811), although unsuccessful, served to keep Japanese eyes focused upon the intentions of their northern neighbor. Russian attention was diverted elsewhere as friction between Russia and Britain became acute after the Afghan question and when Russia became involved in the Crimean War (1854-6), abandoning performance many ambitious plans for colonization and trade in the Far East. Repulsed in her ambition for the control of the Bosphorus, Russia again turned her gaze eastward and reappeared as a menace to Japanese security. In 1859 Count Muravieff of Amur fame (1801-81) sailed with a fleet to Shinagawa and demanded that La Perouse Strait be fixed as a boundary between the Russian and Japanese empires. The high point of Russian aggression was reached in 1861 when Captain Birileff seized the strategic island of Tsushima. Britain, who had her own plans, intervened, and in an age which knew not the meaning of that sesame "*appeasement*," compelled Russia to renounce all the claims to the island; but on the minds of the Japanese a lasting impression had been made which in succeeding years deepened into hostility and distrust.

More decisive than the rather clumsy moves of the Romanov dynasty was the part played by England and France, and finally by the United States. In the eastward advance of the great European powers, India was the first halting-place, China the second, and Japan, that Ultima Thule of Gulliver and Marco

Polo—the third and final stage. Thus it was first India, then China which absorbed the territorial and trading ambitions of England until well into the middle of the 19th century. But the spray from the rapid advance of the East India Company into China waters between 1808 and 1825 splashed Japan's shores and startled out of its somnolence even the self-complacent *Bakufu* government. One of the first attempts of the British to test the defenses of isolation in Japan was made in 1808 when the H.M.S. *Phaeton* forcibly entered the port of Nagasaki causing considerable uproar among Japanese officials and the resident Dutch. A suitable opportunity for the British to replace the Dutch as the sole European traders in Japan presented itself when Holland was incorporated in Napoleonic France, which was of course at war with Britain. After Java had been taken over by the British, that imaginative empire-builder Sir Stamford Raffles urged that the East India Company not only replace the Dutch at Nagasaki but undertake more ambitious commercial and colonial projects in Japan than any other power had hitherto conceived. Two British ships, the *Charlotte* and *Maria*, sailed into Nagasaki in 1813, perhaps to make a survey of the possibilities of replacing the Dutch. However, Raffles' project was thwarted by the astute Dutch factor Hendrick Doeff who, by refusing to comply with the former's demand to surrender Dutch trading rights to the British, succeeded in keeping Deshima the only place in the world where the Dutch flag was flying in the year 1813. These incidents, together with the armed clash in 1824 between foraging English sailors and local inhabitants on Takarashima in Kagoshima Gulf, so alarmed the *Bakufu* that it promulgated in April 1825 the famous *Uchi-harai rei*, the order to attack and drive off any foreign ship which violated Japanese isolation. The *Bakufu* now encouraged violent anti-foreign agitation. Later this was to become a source of embarrassment when, caught between Western insistence that Japan open its doors and the popular demand to expel the barbarian, the *Bakufu* after much vacillation finally referred the question of treaty-signing to the imperial court in Kyoto and thus seriously damaged its political prestige. However, the failure of the farsighted Raffles to interest the East India Company in Japan was really an indication that the full force of British mercantile ambitions was now trained not upon the remote islands of Japan but rather upon China, the empire of fabled wealth. The seizure of Singapore in 1819 and the growing trade with China especially in opium signified that the next outpost of British commercial interests would be somewhere on the Chinese coast. In order to break down the

barriers to trade, the British fought and defeated the Manchu dynasty and fastened upon China the first of the unequal treaties, the Treaty of Nanking (1842). British traders were far too busy exploiting in prospect if not yet in fact this rich market to be greatly concerned about the rocky islands lying to the North East. But the fate of China made a lasting impression on the best minds in Japan, whose writing, despite censorship and suppression sounded a clarion call for national defense and even the adoption of Western industry and military science. Fearful lest a rigid maintenance of the *Uchi-harai rei* should in the end call down upon itself the fate of China, the *Bakufu* adopted a more conciliatory policy and issued in 1842 the regulation permitting foreign ships to be fueled and victualled in specified ports. Through this change in policy, the *Bakufu* not only earned the enmity of the vociferous anti-foreign party which had been gaining in momentum, but ignited feuds and rivalries which had been smoldering for decades. The anti-foreign party which was made up of thinkers who wished to adopt Western methods to defeat Western ambitions now turned its battery upon the *Bakufu* for yielding to foreign pressure. That the anti-foreign slogan "Expel the barbarian" was a maneuver to turn the flank of Tokugawa reaction was seen as soon as the anti-*Bakufu* party assumed power after the Restoration (1868), when the more naive adherents of this xenophobia were ruthlessly punished for attacks upon foreigners.¹⁰

Then Norman turns to the United States and France and explains their intentions and conduct toward Japan; but I had better stop here since the quotation has already become too long. The nub of the matter here is to understand the alternatives with which Japan at the later stage of the Tokugawa era was faced, at least in the mind of Japanese statesmen: "To open the country to world trade and intercourse or suffer the fate of India or China."

If a nation is confronted with such an international situation, it is in the natural course of things that this serves as a great impetus to the awakening of national consciousness, as well as an ardent desire for a strong centralized government. Of course, for such a national awakening there must also exist appropriate conditions inside the nation itself. And Japan

¹⁰ Norman, *op. cit.*, pp. 35-9.

at that time possessed those conditions; or, at least, they were in the process of ripening.

Confusion and Collapse

It is said that a mummy which has been preserved for hundreds or even thousands of years immediately disintegrates, once it is exposed to the open air. That was exactly the case with Japan in the late Tokugawa period when she succumbed to outside pressure to open her doors. Following upon the first treaties with the Western powers, which were signed, as we have seen in the preceding section in the years between 1854 and 1858, the decade from 1859-68 was characterized by a quickening process of a mummy-like disintegration of the old Japan. That Japan was able to evade a greater catastrophe than the one that actually befell her was partly because, up to that time, she had been more or less exposed to the outside air through the port of Nagasaki, as well as to the fact that her inner economic and political conditions were, so to speak, slowly setting the stage for such a disintegration. Nevertheless, the confusion and collapse that took place after 1858 was simply appalling.

Nippon ni okeru Shihonshugi no Hattatsu ("Development of Capitalism in Japan") is an interesting work containing abundant statistics as well as research by other specialists besides the authors.¹¹ What this book tells us about the above-mentioned decade can be briefly summarized as follows:

It is impossible to know the exact amount of Japanese foreign trade during the last years of the Tokugawa era. We have statistics showing favorable balances of trade as far as ordinary merchandise was concerned, but the overall balance was in deficit owing to smuggling and purchases of warships and munitions. But the trade deficit was not the sole cause of the tremendous outflow of gold specie witnessed in those years.

Before the opening of the ports the parity of gold and silver in Japan was 1 to 10, while it was 1 to 15 in the world market. Added to this, not only did the

¹¹ Kajinishi, Mitsuha; Kato, Toshihiko; Oshima, Kiyoshi; and Ouchi, Tsutomu: *Nippon ni okeru Shihonshugi no Hattatsu* ("Development of Capitalism in Japan," Tokyo: University of Tokyo Press, 1951).

bakufu suppress neither the export of gold and silver nor free circulation of foreign coins in the country, but also it allowed the exchange of Japanese coins with foreign coins of the same metal—silver with silver and gold with gold—and of the same weight.¹²

Therefore, even without a trade deficit, it was unavoidable that gold flowed out of the country. Under normal economic conditions the outflow of gold specie as a rule beckons a state of "deflation," but the policy adopted by the *bakufu* was rather to stimulate "inflation" by extensive reminting and debasement of the coinage.

As we have noted before, the Japanese economy had to a certain extent been treading on the path of a commodity and money economy. Though the excess of imports over exports had continued since the beginning of foreign trade, the merchandise imported was mostly for other purposes than "popular consumption." On the contrary, the major items in the export list such as raw silk, tea, silkworm egg cards, cotton, marine products (dried shark-fins, seaweed, fish, oil, etc.), copper, tallow wax, and so on, were goods more or less closely related with the various phases of people's daily life and production. The sudden increase of demand for these goods that was caused by the new markets overseas made inevitable the rise of prices, which was spurred still more by the inflationary policy of the *bakufu*. Shortage of goods and rise of prices spread out from port towns to producing centers, and from exported merchandise to other commodities. The prices of commodities in Edo in 1867 (the 3rd year of Keio) rose to the following rates, taking those in 1859 (the 6th year of Ansei) as 100: rice 370, ginned cotton 430, tallow wax 240, dried herrings 300, oil cakes 400, green tea 130, native sugar 320. Other statistics show that, during the same period, the price of barley became fourfold, wheat ninefold, soya beans eightfold, salt ninefold, rice wine tenfold, rape-seed oil sixfold, and so on.

The effects upon various classes and layers of society by this great turbulence in commodity and price structures were not always the same. We have already noted in the section "New Wine in the Brewing" that throughout villages and towns the differentiation in economic status

¹² Kajinishi, Kato, Oshima, and Ouchi, op. cit., p. 342.

among the people was becoming more and more acute; but that tendency now received a new impetus. The sudden growth of a commodity economy that had been made possible by the opening of foreign trade allowed those people, who were engaged in production, brokerage, and sale to foreign traders of exported goods, to profit from the new developments and sometimes to amass huge fortunes. I am not sure whether Mambei the weaver or Yoemon, the drape merchant in our story, were among the group, but as a rule they consisted of rich peasants in the villages as well as merchant capitalists and financiers in the town. On the other hand, a great majority of the people in towns and villages, suffered from the high cost of living under the aggravating inflation. It is no wonder that this called into being various conflicts of interest and disturbances. Popular risings were not rare phenomena throughout the Tokugawa era, but as we draw nearer to its close, and particularly after the opening of the ports, we witness an increase both in number and scope of these revolts. The numbers of people mobilized to various sorts of peasant uprisings and rioting of the city poor had remarkably increased, their organization, tactics, and the consequences these brought coming to take on more serious aspects. In this manner, the process of the fundamental disintegration of the feudal society was gaining momentum.

The position of the *samurai*, the ruling as well as the exploiting class of feudal society, was also deteriorating. For them the defence of the feudal system should have been of necessity synonymous with the defence of their livelihood, but in reality the system was rapidly losing its meaning. As far as the upper *samurai* and the *daimyo* were concerned, they were able indeed to hold on to their former status and way of life not only by raising more tribute from the people—which had, of course, the effect of inciting more peasant risings and rioting of the city poor, thereby intensifying the crisis—but also by cutting down rice stipends issued to the lower *samurai*. But the state of the latter was hopeless:

A tremendous number of lower *samurai* under the Tokugawa regime . . . who were town dwellers in most cases, sank deeper and deeper into poverty,

caught in the whirlpool of the expanding commodity economy. As a result, they were forced to take to handicraftsmanship as work on the side, to the extent that they might well be called semi-craftsmen or semi-merchants. . . . For example, nearly every lower *samurai* of the Sendai *han* was engaged in one or another kind of craftsmanship, organized into specific groups depending on his residential section. The goods manufactured by such *samurai* guilds were: paper lanterns, *motoyui* [paper-cords for tying the hair], umbrellas, fossil-wood work, dyeing stencils, thread for making *tatami*, cut tobacco, iron tongs, footwear, lacquerware, braided hats, and so on; and some of these guilds even worked on the basis of the division of labor for processing the raw materials supplied by a wholesale dealer. In the manufacturing of *motoyui*, for example, there were thirteen *ashigaru* [lowest-ranking *samurai*] families which operated as wholesalers and employed about sixty other families for twisting paper into string; but for the specific purpose of cutting paper to size they had several hired hands recruited from other poor *ashigaru* families.¹³

We see here that a part of the *samurai* had turned into wholesalers or commission merchants; but a majority of them had become handicraftsmen engaged in domestic industry and subordinate to the commission merchants.

Thus the commoners as well as the *samurai* acquired properties totally alien from those which the unwritten constitution of feudalism had foreseen. Pressed into such needy circumstances, the lower *samurai* began to waver in their loyalty toward feudal society. It is true that subjectively they were not at all against feudalism but were simply resisting its consequences, which had put them into such difficulties. Seen objectively, however, their resentment and revolt were destined to shake the foundations of feudal society and cause the system to disintegrate. The opening up of foreign trade had a large part in the further and more rapid deterioration of the conditions of the lower *samurai* class. Therefore, their reaction took the form of enmity and opposition in regards to the upper *samurai* class which had adopted the policy of open ports—or, put into

¹³ Oshima, Akira. "Sendai Han ni okeru Kakyu Hanshi no Shugyoka" ("Handiworkmanship of the Lower Samurai of the Sendai Clan," Tokyo: *Rekishigaku Kenkyu* ["Journal of the Historical Science Society"]), II, No. 5 (19), 453.

more concrete terms, to the Tokugawa shogunate. And such a phenomenon meant nothing else but the collapse of the unity of the ruling class, and consequently the dissolution of the feudal regime.

While the uprising of peasants in the villages and the rioting of the city poor had the effect of undermining the feudal system of the *bakufu*, the movements of the lower *samurai* were paralyzing it from above. If a situation in which the livelihood of the great majority of people was in such a grave crisis that loyalty and confidence in the existing social order were shaken in the extreme, and the ruling class had lost its power to govern the people—if such a situation can be called “revolutionary,” then such was the confusion and disintegration of Japanese society in the years following the opening of the ports. The question now was: Could Japan, confronted with such a situation, find inside herself a force which would be able to deal with it in a positive way (i.e., a progressive way); and, provided that she could, what kind of force would this actually be?

On to the Establishment of a Centralized State

In order that the Japanese nation should not be weakened or ruined by internal confusion or external pressures, it was mandatory that a central government, powerful enough to unify the entire nation and to safeguard national independence, should be established. This was accomplished by the Meiji Restoration.

The establishment of the Meiji state was made possible as a result of a complicated interplay of internal and external forces. As to how it was successfully accomplished notwithstanding the outside pressures, or rather how those pressures were kept within such limits as to make it possible, I am in complete agreement with the following interpretation by E. H. Norman.

... It might be pertinent to ask why Japan did not become a colony, or at least a country of impaired sovereignty as contemporary China. The danger of Japan becoming subject to some one or more of the Western powers was very real. Internal social and economic decay had reached so advanced a stage

that it is pardonable to be puzzled as to how Japan avoided the fate of China. England and France were pushing their colonial stakes farther eastward. Fortunately for Japan their attention was absorbed by the far richer prize of China which they were busily engaged in "pacifying" for several decades after 1840. Britain in particular was watching and finally intervened in the great Taiping Rebellion, which broke out in 1850 and which was to last for some fifteen years. The period of 1860-5, the eve of the Meiji Restoration, was the most critical for Japan . . . The France of Napoleon III had shown a desire to acquire territory and glory. In 1859, after emerging empty-handed from the Crimean War, Napoleon III backed Sardinia in a war against Austria, winning as his reward Savoy and Nice. This grotesque caricature of the great Napoleon was now to meet with one of the most shattering fiascos of his career in his Mexican adventure of 1862-7. (The American Civil War, added inducement for French intervention in Mexico, was incidentally a guarantee that no successor to the persistent Perry would trouble the rulers of Japan for some years to come.) By the time Napoleon had extricated himself from his Mexican adventure, the helmeted figure of Bismark cast an ominous shadow over the Third Empire, deterring even the feckless Napoleon from sending his troops to the end of the world. . . .

The peculiar complexity of the international situation from 1850 right through to the end of the American Civil War and the outbreak of the Franco-Prussian War . . . gave Japan a vitally necessary breathing-space in which to shake off the restricting fetters of feudalism which had caused the country to rot economically and to be exposed to the dangers of commercial and military domination from abroad. It is not too much to say that after allowing for the fortuitous balance of international forces (especially the Mexican fiasco as a retarding factor on French Far Eastern ambitions), it was the sprawling prostrate body of China which acted as a shield for Japan against the mercantile and colonial greed of the European Powers. In comparison to the attractions and profits of the Chinese market, Japan had very little to offer either as a market for foreign manufacture or as a granary of raw materials for Western industry. . . . Taking advantage of this valuable breathing space, the Meiji leaders were able to destroy the feudal government of intrigue and dissension, setting up in its place a national, centralized government and opening Japan to the invigorating air of Western science and invention; and finally, through the foresight of this brilliant group of statesmen, the new regime laid the founda-

tions for a strong independent nation, thereby making invasion from abroad too dangerous or too uncertain an undertaking.¹⁴

I think that adequate reasons have been given why the Japanese nation was successful, in contrast to the other nations in Asia, in establishing an independent national state in spite of pressures from outside. It is true that, even after the Meiji Restoration, Japan was not allowed tariff autonomy and was forced to concede extraterritorial rights and exclusive foreign settlements to Western powers (just as China did in large cities such as Shanghai, Tientsin, *et al.*, until recent years), and to that extent she could not justly be called a perfectly independent country.¹⁵ But her "dependency" was of such a nature that it was possible for her to do away with these signs of subordination through her own development as a national state. At any rate the foundations were thus laid for the growth of a strong independent nation.

Now let us see what kind of internal force it was that worked for the establishment of the new government. Or, put in other words, who were those "Meiji leaders" or "brilliant statesman" with foresight who were to set up a new centralized government? As a matter of principle, owing to the social condition then prevailing, they could be found only among the ranks of the *samurai*. Aside from the *samurai*, there were in the Japanese society of that time such social classes and groups as wage-earners, small and middle peasants, rich peasants, and parasitic landlords; and then, in the towns, there were merchant capitalists and financiers thriving as parasites of the feudal economy, as well as industrial capitalists operating on the basis of *Manufaktur*; but not a single one of these was in a position to take an active part in the work of creating a new government. None except members of the *samurai* class had experience in matters such as the making and enforcing of laws or other fields of public administration, nor possessed superior military as well as intellectual ability. Inside that class itself, there were of course differentiations

¹⁴ Norman, *op. cit.*, pp. 43-6.

¹⁵ See Ishii, Takashi. *Gakusetsu Hihan: Meiji Ishinron* ("Criticism on Various Theories on the Meiji Restoration," Tokyo: Yoshikawa Kobunkan, 1961), pp. 91-102.

in the shape of upper, middle, and lower *samurai*; and it was mainly from the lower stratum that those "Meiji leaders" and "brilliant statesmen" emerged. Not only were they gifted with such abilities and experiences as mentioned above, but the degree of their freedom from the feudal system was the highest among the various social groups. However, as far as a man was a *samurai*, regardless of which group of the upper, middle, or lower levels he belonged to, he had to be a retainer of one *daimyo* or another; which meant that whatever utterance he made, or action he took, had to take the form of the behavior of the particular *han* or clan he served. Consequently, the problem which was eventually posed was: Which one clan or group of clans was in a position to establish the new central government? Once the problem was presented in such a form as this, the answer as to who should undertake the founding of the new government came to be one of the following three: (1) the Tokugawa shogunate itself, or, at least, a group with the shogunate as its central axis; (2) a coalition of the great clans in southwest Japan; or (3) a compromise of these two forces. What actual history did was to choose solution (2). What problems confronted the new government thus established? In what manner did it try to solve them, and in what kind of action-and-reaction relationship did it stand to the various social classes and groups of Meiji Japan? These were the factors that were to determine the subsequent course of the new Japan and its government. Our next step is, therefore to answer these questions.

CHAPTER II

Formation and Development of Capitalism

The Road to Capitalism

Japan at the latter part of the Tokugawa era already had a considerably developed commodity economy as well as money and credit systems; she had also developed quite an extensive network of roads and enjoyed an advanced urban life. Admittedly, such primitive types of capital are, as a rule, hard to develop into modern types of capital. And it may be argued, too, that *Manufaktur*-type production had not become as prevalent in Japan as could have been expected. But if we avoid taking too formalistic a view and try to interpret the situation with some flexibility, the above-mentioned developments may be regarded as proof of the existence of rather strong pressures that were working on the new Meiji government to adopt the policy it did in the building of modern Japan. Our Meiji leaders and statesmen behaved in reality quite as if they were following a premeditated plan such as might have been worked out by an expert in the planning of capitalist societies, had he been asked to blueprint a plan for building and strengthening a capitalist system in Japan under the internal and external conditions existing at that time.

Though it concerns a period a little later than the one we are now discussing, the following analysis by Asakura Koichi seems to support this author's interpretation of the situation:

The development of banking in the earlier part of the Meiji period was effected neither by a unilateral encouragement on the part of the government nor by the combined efforts of the government and "certain former *daimyo* and noted merchant princes," that is, not "from above," but it appears to have been

the result of endeavors arising spontaneously "from below." Hardly any research has been done to date concerning the development of forces working "from below"; but if we take into account the fact that accumulation of wealth had been ceaselessly carried on throughout the Tokugawa era, it can be safely assumed that their influences had grown to substantial dimensions. We know that the main source of government revenue in the early Meiji period was the land tax, and that a large part of it was paid by the merchant and landlord instead of poor peasants who, unable to pay, saw their land gradually absorbed by the former two. This proves more than anything the financial strength of the merchant and landlord in that period. In such a way as this, the merchant-landlord class played a major role in the formative period of Japanese capitalism—which continued into the early 1890's—by owning banking businesses and thereby backing up their own private usury. The control of financial machinery probably enabled them to carry on the accumulation of capital in the take-off stage and allowed the ablest among them to obtain control, in later years, of the manufacturing industry too. In short, we cannot but be led to the conclusion that the masters of the banking business and, consequently, the masters of economy in the early Meiji period did consist of the numerous merchants and landlords of large and small means, including noted merchant princes as well as former *daimyo* and upper *samurai* turned into landlords, who were taking charge of economic and banking activities under government direction. And it was out of these classes that there emerged the 'masters of economy' or of banking who were to become the driving force of capitalist development in later years."¹

Therefore, it would not be too wide of the mark to think that the policy of the new government was oriented to serve the interests—that is, the expansion and development—of these classes. Furthermore Asakura found one of the sources of the initial funds needed for industrial revolution in the early Meiji period in the accumulation of wealth by the merchant-landlord class which had its origin in the Tokugawa era:

The three major factors enabling Japan to accomplish the industrial revolution between the 26th–38th years of Meiji (1893–1905) were: The inflow of vast amounts of foreign capital (totaling about two billion *yen* up to the 3rd

¹ Asakura, Kokichi. *Meiji Zenki Kin'yu Kozoshi* (History of the Japanese Financial System in the Earlier Part of the Meiji Period," Tokyo: Iwanami Shoten, 1961).

year of Taisho or 1914); the native capital pumped up from agricultural areas to business centers through the hands of the merchant-landlord; and government subsidies. It is in the latter half of this period that manufacturing for export (textiles for example) was firmly established.²

While the new wine was brewing, its significance might have escaped notice, but it was destined to expand in due course to a gigantic force that was to "accomplish the industrial revolution" and to "become the driving force of capitalist development."

However, it would be a mistake if we base our argument as to why the new government chose to follow the capitalist road exclusively on the relations between the internal forces. Seen from another viewpoint, one could argue that it was outside pressures that compelled the new government to take such a course. The problem of whether internal or external pressures were stronger as the causes of the Meiji revolution has, from time to time, become a point of dispute among our historians, but I doubt if there is any objective measure to determine the relative strength of these two kinds of forces. With neither the internal nor external force in action, there would have been no Meiji Restoration; and even if a "revolution" in one form or another had taken place, the new government would never have directed its course down the road to capitalism. Those forces were, in effect, working together and complementing one another.

The significance of outside pressures on Japan's decision to take such a course is clear. As has been pointed out by Norman, our Meiji statesmen were striving to avoid the fate of India and China and preserve the national independence. To achieve their objective, it was essential for them to build a centralized state controlling the whole nation and, using it as a lever, foster the economic and military strength of the country. But such a program could only be carried out by means of imitation and importation of Western civilization, not only of its scientific achievements, but also of its economic system, capitalism. Without domestic pressures, that is, if the ground had not been ready for the transplantation

² *Ibid.*, pp. 332-3.

and growth of capitalism, the Meiji statesmen would not have been able to implement their chosen policies, even if they had wished to. They were allowed to do so simply because the internal and external forces worked together. The combination of these two component forces drove the government toward the road to capitalism, thereby giving incentive to the forces and tendencies which were working as internal pressures.

In this way, the centralised state of Meiji became a regime designed to serve the interests of capitalism and, consequently, of the capitalist class, in Japan. If we look at a state from the viewpoint of its inherent "class" nature, that is to say, if we regard the state as something representing the interests of one class or another, that erected by the Meiji Restoration was certainly a state of the capitalist class. In other words, it was a bourgeois state and, therefore, the Meiji Restoration was a bourgeois revolution. If we base our judgement on the precise definition of words and concepts as well as on the analyses of concrete matters, there can be no difficulty in reaching such a conclusion.

Founding of a New State

It is said that a state is a kind of organized and systematized violence. This is a definition generally accepted in political science, but were the Meiji statesmen in need of such an organization? The answer to this is in the affirmative.

The state they had erected was surrounded by enemies on all sides. Outside, it had to cope with the threat, real or imaginary, of subjugation or subordination by advanced nations—a situation that required Japan to become a power with military strength. But, to repeat, in order to become a powerful nation, there was no other way under the then existing domestic and world conditions but to follow the road to capitalism. Within, everyone who tended to follow a course other than this road was the enemy of the new government. Moreover, as will be made clear in the course of our analysis, the very effort to bring in and enforce capitalism created new enemies. And so, to sum up, the Meiji statesmen had very compelling reasons indeed for building a strong state machinery.

As we have seen before, there were more than 250 small states in Japan in the Tokugawa era. At the outset, as we have learned in the section "Feudal Japan," it was a pyramidal system of small clan states with the *bakufu* at the pinnacle, but during the last years of the Tokugawa regime this hierarchic structure was falling to pieces. As Rostow has pointed out, one of the characteristic traits of a static society is that "political power tends to lie in various regions," and the domains of "those who controlled land rents" (the *daimyo* in our case) had turned into independent states on their own. The revolution that was the Meiji Restoration was in a certain sense, a struggle among the clan states to determine which one state or coalition of states could become the national state that was to represent the whole nation. Although this struggle was a civil war from the standpoint of the unified state that eventually emerged, at that time it was virtually an inter-state war. The Meiji statesmen were the people who won the war with the backing of the coalition of strong clans in the southwest and took upon themselves the task of building the new state, but the vanquished were not necessarily exterminated; they stayed on after the war as clans, though on a reduced scale. There were also the non-belligerents who had adhered to neutrality. Furthermore, among the states that had cooperated with the Restoration there were some which, after the victory, opposed the new government's policies.

That was why "destruction before construction" became the order of the day. The Meiji statesmen made it a policy to eliminate every clan state which had existed before the revolution. The Declaration of Re-establishment of Imperial Rule (*osei fukko*) in December, 1868, signaled the birth of the new Japanese emperor system or *tenno* state, (the hallmark to be jointly used by the Meiji leaders), and, simultaneously, the death of the former regional states. But at that time it was still just a piece of paper. Of necessity, the return of land and people to the emperor (*hanseki hōkan*) had to follow it in the 2nd year of Meiji (1869). At that stage, both land and people were transferred to the direct rule of the *tenno* state, but the feudal lord was retained as governor of his domain. Apparently this was not an essential change from the status quo.

But destruction before construction still continued. In the 4th year of

Meiji (1871) the old *han* boundaries were abolished, and three *fu* (metropolitan prefectures) and seventy-two *ken* (prefectures) were set up as units of local administration (*haihan chiken*). The vestiges of the old clan states did not die out at one stroke, but at least the ground was broken for reorganizing their structure and personnel in order to absorb them as lower-grade machinery of the new state. Persons other than the former *daimyo* were appointed as prefectural governors. It was a great step forward for the new state to be consolidated as the authority that could really rule the whole nation. Accordingly, the structure of the central government was also reorganized and completed step by step, taking a more or less zigzag course.

Then, in order to strengthen the newborn centralized state, the Meiji statesmen created the police system and the judicial and penal systems, and perfected the military services. To take the military institutions for example, the first army contingent was organized in 1868 by obtaining necessary troops and funds from a number of *han*. In 1869, the organization of private armies by the *han* was forbidden, and in 1871 a contingent of ten thousand lifeguards was summoned from the Kagoshima (Satsuma), Yamaguchi (Choshu), and Kochi (Tosa) *han* by the Imperial Guard Act. This act was designed to defend the new state and guard the lives of the Meiji statesmen. It was followed by the Conscription Law (1872), the establishment of the Ministries of War and the Navy (1872), and a little later by the introduction of Universal Conscription (1874). (The *gendarmarie* was created in 1881, and the Martial Law Act in 1882.)

In this way, the machinery of state as defined above was built up by the Meiji statesmen at a steady but swift pace.³

³ See *Aritomo Yamagata* (Tokyo: Iwanami Shinsho Library, 1958) by Oka, Yoshitake. This book lucidly describes the history of internal administration and military services in the Meiji era and their significance in connection with the life and deeds of Aritomo Yamagata. Also, the *Nihon Shihonshugi Hattatsushi Nempyo* ("Chronology of the Development of Japanese Capitalism," Tokyo: Kawade Shobo, 1949) by Okazaki, Jiro in collaboration with Kajinishi, Mitsuhaya and Kuramochi, Hiroshi, was very helpful to me in writing the present and subsequent sections.

Abolition of the Feudal System

The new government, in the process of its formation, ruthlessly carried out the abolition of the feudal system. As a result, the "provisions" of the unwritten constitution of feudalism introduced before were revised one after another. It may well be said that, to that extent, democratic reform was positively pushed forward. But this reform was confined within certain limits; that is, democracy was respected exclusively within the limits that were necessary and useful for the formation and development of capitalism.

Let us examine the policies adopted by the leaders of the new government from the point of view of the conditions necessary for the formation and development of a capitalist economy, keeping in mind the "provisions" of the unwritten constitution of feudalism.

In the first place, it was necessary that Japan become a single market, or a single economic whole. Accordingly, the barriers and checkpoints along the highways in all the provinces were abolished (1868). The barrier of Hakone, the most important of all, met the same fate a little later in 1869. For the people at large this meant the recognition of freedom of choice and change of abode.

Secondly, it was necessary that freedom of occupation, enterprise, and employment, that is, the freedom of making contracts in general, should be recognized. Accordingly, in 1871, the freedom of choice of occupation was recognized for persons other than peers, former *samurai*, and government officials, and a little later (1872) for the peasant. Former *samurai* were also encouraged to return to farming and settle in underdeveloped regions (we shall return to this policy later on). Furthermore, the privileges allowed to the chartered merchants were withdrawn and freedom of commerce was upheld (1868). The sale of rice by the peasant was freed in 1872, and both rice and wheat were freed for domestic sale and for export, free of duty, the following year.

Thirdly, although the freedom of sale, purchase, and lease of the factors of production other than land—that is, the private ownership of those properties—had been recognized even in the feudal economy, as a

rule it had not been so in the case of land. Accordingly, it was necessary that private ownership of land, the most important means of production in agriculture, should be recognized; that is, freedom of the use of, gains from, and disposal of land should be granted to the landowner and the price and rent of land should follow the law of commodity, or the law of supply and demand. So the tillage of land at one's will (*dempata katezukuri*), or the freedom of use of and gains from land was sanctioned in 1871; and the next year the "permanent prohibition" of the sale and purchase of farm land was lifted.

Fourth, but not least, the caste system was to be done away with and the freedom and equality of man was to be recognized. That was because the freedom of the individual was a *sine qua non* for the relationship between man and man in which the purchase and sale, lease and loan, and employment could be regulated by the law of commodity economy, or the law of supply and demand. Thus, the commoner was for the first time allowed to bear not only a personal but also a family name. Inter-marriage between the peer, ex-samurai, and commoner, be the latter peasant, handicraftsman, or merchant, was made free. There were still to remain different titles indicating social standing such as *kozoku* (member of the imperial house), *kazoku* (peer), *shizoku* (ex-samurai), and *heimin* (commoner), but as far as economic life was concerned everybody was subject to nothing else but the law of commodity economy. The caste system inside the peasantry itself—titles such as *kusawake* (forest settler), *mizunomi* (petty peasant), and *iegakae* (living-in farm hand)—as well as such pariah castes as the *eta* and *hinin* (numbering, at that time, more than 380,000) were abolished. Of course trade in human life was forbidden. The emancipation of male and female house-slaves and prostitutes was declared, and actions for debt against the purchased prostitute became non-litigable. Apprenticeship of more than seven years as well as employment contracts for servants for more than one year were also prohibited by law. This meant that labor came to be bought and sold as often as it was necessary, that the wage-laborer who wanted to sell his commodity called "labour" could at any time enter into a contract of employment, that is, a contract for the sale of his

commodity. This had, indeed, a cardinal importance for the formation and development of capitalism.

Should revisions such as these of the unwritten constitution of feudalism be accomplished, the doors would open wide for a free development of a commodity economy, and consequently of a capitalist economy. And that was what the new Meiji government and its leaders had in mind when they introduced these revisional changes.

But did the new government and its leaders accomplish democratic reform in its fullest meaning? To this question, it can only be said that they did not.

Up to the time they brought the *bakufu* down, and in order to bring it down, the leaders of the Meiji government had been talking about their intention of undertaking democratic reform in a thoroughgoing way; but after the erection of the Meiji government they stopped doing so. As has often happened in history, at first a very high regard was paid to democratic ideals. Opinions such as that opposing the imperial rule, or that advocating a republican form of government, or even that acknowledging the people's right of rebellion, were allowed to be freely expressed; and there were actually instances in which those opinions were brought to expression. But the more the new government had consolidated its power and perfected its administrative machinery, and the more its policies had assumed concrete and definite forms, and consequently the more, viewed from the opposite side, the forces opposing the intentions and schemes of the government had taken on a distinct character, the Meiji statesmen began to resort to repressive measures against democratic tendencies. Let us recall here that among the tenets of democracy there are those, such as freedom of choice and change of abode, and of occupation, enterprise and employment, that are necessary and useful for capitalism and the bourgeois class, but there are others, such as freedom of association, assembly, demonstration, and expression, that are unnecessary and harmful for capitalism and the bourgeois class, once they are allowed to become the means of criticism of or opposition to capitalism. When we talk about democracy it is usually the freedoms of association, assembly, demonstration, and expression, as well as voting

rights that are called to our minds. From the point of view of this interpretation of the term "democracy," the Meiji government and its leaders must be regarded as having turned anti-democratic and despotic at an early stage. It was against such a despotic government and its bureaucrats that various opposition groups in those days—some progressive-minded, others retrogressive-minded, and still others "stationary"-minded—fought time and again under the common slogan of "liberty and civil rights" (*jiyu minken*).

Nowadays, there are a number of "theorists" who cannot resist the temptation of calling the Meiji state absolutist, simply because the bourgeois regime born from the Meiji Restoration had an anti-democratic nature. If they wish to call an anti-democratic regime an "absolutist" state, that is simply a matter of terminology; in that case I have nothing to say against it. But if they wish to do so for the purpose of denying the fact that the new Meiji government was a bourgeois state, then I must say that they are wrong. There should be no difficulty in understanding this point, if we have a clear idea about the fact that among the bourgeois revolutions there are ones which are accompanied by democratic reform and others which are not, or in other words, that there is capitalism accompanied by democracy as well capitalism without it.

What other questions had our Meiji statesmen to cope with while they were building the new state and were revising the unwritten constitution of feudalism? We must now look into these questions.

Finance, Currency, and Credit

As a noted Japanese economist once remarked, "Money is indispensable to a capitalist society, just as air is to the human being." I think this is a very happy comparison. True, just as air does on the earth, money must pervade every nook and corner of the capitalist society; it must move quite freely from one place to another. More than that, money, like air, must be uniform in its quality wherever it may be found. In this manner, air and money have much in common with each other.

But what was the state of money when the new Meiji government was just founded? Above all, it was far from being uniform throughout the country. To illustrate this point here is an excerpt from the preamble of the monetary law enacted on May 10, 1871:

Gold coins minted during the earlier, middle, and later periods of the Tokugawa era were different in weight and fineness, and therefore in value. Besides gold coins, there were also silver coins of different quality and denominations. Copper coins, too, had varied sizes and values. Some coins were oval-shaped, others round, and still others square. Moreover, there were numerous kinds of coins minted for temporary use. In extreme cases, there were specific kinds of currency which could be used only in a particular province or country.

In such a confused air as this, capitalism would not be able to survive. Besides these metal coins, there were also various kinds of paper moneys:

If strictly classified, there were 1,694 different kinds of paper moneys. They were issued, with or without permission of the shogunate, by various clans and vassals of the Tokugawa regime to be circulated in their own fiefs. They are classified as (1) gold notes, (2) silver notes, (3) copper notes, (4) rice notes, (5) *Eiraku-sen* notes, (6) umbrella notes, (7) string notes, and (8) potter's wheel notes.⁴

In short, the Japanese currency was a welter of confusion with coins and paper moneys minted and issued by the *bakufu* and various clans. Added to that, after the opening up of foreign trade, Mexican silver dollars and other foreign coins also began to be circulated in the country.

What measures had to be taken in order to put an end to such confusion and to introduce an efficient currency system?

Laying aside the question of foreign currencies, first of all new issues of the former currencies had to be prohibited, and then they had to be converted to new coinage and paper money. There were three conceiv-

⁴ *Meiji-Taishoshi* ("History of the Meiji and Taisho Periods," Tokyo: Asahi Shimbunsha, 1930), III, 8-9.

able ways to do so: (1) To introduce a currency system based on a metal standard (gold or silver) and exchange the old currencies for the coins or convertible notes issued by the new system; (2) To exchange them for the inconvertible notes issued by the government; or (3) To standardize the monetary system through adoption of foreign coinage.

In the beginning the new government intended to adopt the first method, that is, to standardize the monetary system on a gold base. The New Monetary Law previously mentioned was meant to introduce such a gold base. However, in actuality it did not work. This was because, in the first place, the new government itself had been issuing paper moneys under varied names and their total amount was already above the limit of convertibility with the gold reserve in the hands of the government. The issue of these paper moneys had served to a great extent to eliminate old currencies, as the funds for government expenditure, or, as we shall see later on, as the funds for subsidizing new industrial enterprises; but it was in no way helpful in the standardization and consolidation of the monetary system. In the second place, it was because foreign currencies in the form of silver coins were in circulation. At first, they were used only in treaty ports, but before long they were allowed to pass without any restriction, either as to their circulation area or the uses to which they were put.

In this manner, the Japanese monetary system at that period was so to speak, "bimetallic," but the gold base was for the most part an imaginary, fictional one, while the silver coinage was in effect playing the role of the standard money. In theory, the government notes were convertible to gold; but, in reality, it was customary in those days to discuss the parity of a government note to the one-yen silver coin, which was nothing else but the parity of the note to the silver dollar.

Further, there was another kind of paper money the reserves for which were paper notes issued by the government. Presuming that the government note was of a similar nature to that of gold specie, the government planned to introduce a system whereby private banks were authorized to issue paper money with government notes as reserves. A number of national banks (*kokuritsu ginko*) were thus established all over Japan under

the encouragement of the government. At first the legally required reserve rate was considerably high; but soon this was lowered to such a level as to allow about 140 national banks to mushroom. The fluctuations in the circulation of the paper moneys issued as bank notes by these private banks should have faithfully reflected the trends of the national economy; but they were, after all, inconvertible notes, since the government notes used as reserves were inconvertible.

It is usually the case that, even if inconvertible, either government or bank notes can stand at parity with silver specie, as long as the amount issued is kept within a certain limit. Such a state of affairs actually prevailed in the earliest part of the Meiji period. For example, the quotation of the one-yen silver coin stood at 1.013 yen as measured by paper money in January, 1877. But in subsequent years, the government was compelled to resort to an increased issue of paper moneys because of its expenditure for the suppression of the Satsuma rebellion (1877) and of the raising of deficit-covering bonds. Of course, the excessive issue of paper moneys called forth an inflation, and widened the disparity between silver and paper. In April, 1881, the quotation of the one-yen silver coin stood at 1.795 yen measured by paper money, which meant a depreciation of paper money to almost half its nominal value.

The continued disparity between silver and paper money was of course harmful for the normal development of capitalism. Therefore, starting in 1881, the government took decisive measures to stabilize its financial situation and the currency under the guidance of the then Finance Minister, Count Matsukata. His plan was in the first place to withdraw from circulation the excessive amount of paper notes and confine them within such a limit that they were convertible to silver at parity. Secondly, he planned to establish a central bank, which would be invested with the monopoly of note issue and whose convertible bank notes would be exchanged for all government and bank notes in circulation.

Accordingly, the government took the measure of stripping the national banks of the right to issue paper moneys on the one hand, and, on the other, established the Bank of Japan as the central bank of issue with reserves of silver specie (1882). The Bank of Japan issued its first convert-

ible bank notes in May, 1885. Toward the end of the 19th century, Japanese currency was thus standardized by Bank of Japan notes.

However, there was yet another problem to be solved. It was the question of whether the silver standard was advantageous to the Japanese economy if it was to develop as an integral part of the world economy. In those days, all the world over, silver was losing its position as the metal used as specie. The improvement in methods of its production continued to make its parity to gold more and more unfavorable. The silver-gold parity which stood at 1 : 19 when the Bank of Japan notes were first issued in 1885, fell to 1 : 29 in 1891, 1 : 23 in 1892, and 1 : 26.5 in 1893. This made more and more countries in the world adopt the gold standard or stop free minting of silver coins. The Japanese government, too, faced with the alternatives of silver and gold, decided in the end to adopt the gold standard and on March 1, 1897, presented before the Imperial Diet another new monetary law with associate laws.

Under the treaty of Shimonoseki (1895) which concluded the Sino-Japanese War, Japan exacted from China an indemnity of 38.1 million pounds (310 million *yen*) in gold specie. This provided Japan with a gold reserve with which to shift to the gold standard as a monetary system necessary for the further development of Japanese capitalism. Thus was born the ten-*yen* gold coin, that had a fineness of 9/10 and weighed 8.333 grams, and was equal to about five American dollars in value.

Whether money was like air or not, the Meiji government succeeded in this manner in consolidating the monetary system that was absolutely necessary for the development of capitalism in relation not only to domestic, but also to world economy.

We have traced the progress of the Japanese monetary system up to the end of the 19th century; let us now go back to the early Meiji period to see what other problems had to be handled by the Meiji.

Land Tax Revision

For the advancement of a capitalist economy it is in the first place necessary to develop both a commodity economy and a money economy.

Next, it is necessary that capital and labor, concretely, capitalist and worker become separated as different factors of production, who, as opposite poles in the production process, enter into a contract of employment. In other words, it is necessary that the two factors needed for production of goods and services—that is, the material and human factors of production—should no longer belong to one person; that a person owning the material factors of production should enter the market as a capitalist or employer on the one hand, while, on the other, another who is in possession of labor capacity or labor power enters the market as a wage laborer or employee; and that the two should be merged together through purchase and sale of a commodity named labor capacity or labor power, through the contract of employment.

Everything the Meiji government did in respect to economic life was, directly or indirectly, intended to put into motion and accelerate such a process as this. The Land Tax Revision, or the shift from a tax in kind to a tax in cash, was indeed one such policy. It was a very important policy that had far-reaching consequences.

Taxation of land in urban areas in the form of annual tribute does not seem to have been a common practice in the Tokugawa era. Either the urban land was looked upon as lacking, as a factor of production, the capacity to yield a surplus, or the land tax was included in the other kinds of tax paid by the townsmen to the feudal lord. The Meiji government, however, made a point of collecting the land tax from the urban districts too. It was a tax in cash, as may be easily guessed from the more or less advanced stages of commodity and money economy at that time. The next step taken by the government was to collect a tax in cash from the cultivated land too, instead of a tax in kind.

Even in former times the assessment of the land tax in money was not rare in the case of dry fields. But as far as the paddy field was concerned, it was the practice to collect a fixed amount of rice tribute per area unit. Now this tax in kind was to be converted to a tax in cash, levied according to the price (an average of the prices for several years prior to the tax revision) of that amount of rice formerly paid as tribute. Here are a

couple of model assessments which were published by the government at the time of the Land Tax Revision.⁵

TABLE 2
MODEL I: ASSESSMENT OF TAXES FOR AN OWNER-CULTIVATOR

One <i>tan</i> * of paddy field	
a. rice crop	1.6 <i>koku</i> ** a year
b. gross proceeds (at 3 <i>yen</i> per <i>koku</i>)	4.80 <i>yen</i>
c. cost of production (seed, fertilizer, etc.)	0.72 „
d. net income (<i>c</i> subtracted from <i>b</i>)	4.08 „
e. local tax ($\frac{1}{3}$ of land tax)	0.408 „
f. land tax	1.224 „
g. total tax payment (sum of <i>e</i> and <i>f</i>)	1.632 „
h. remainder (<i>g</i> subtracted from <i>d</i>)	2.448 „
i. land value (<i>d</i> capitalized at 6 %)	40.80 „
j. land tax assessed at 3 % of the land value (<i>i</i>)	1.224 „

**Tan*: a measure of land equal to about 245 acres
 ***Koku*: a unit of dry measure equal to about 5 bu. (See p. 13, Table 1)

TABLE 3
MODEL II: ASSESSMENT OF TAXES FOR A TENANT

One <i>tan</i> of paddy field	
a. rice crop	1.6 <i>koku</i> a year
b. rent (in rice) received by the landlord	1.88 <i>koku</i>
c. proceeds of the rice paid as rent (at 3 <i>yen</i> per <i>koku</i>)	3.264 <i>yen</i>
d. local tax ($\frac{1}{3}$ of land tax)	0.408 „
e. land tax	1.224 „
f. total tax payment (sum of <i>d</i> and <i>e</i>)	1.632 „
g. remainder (<i>f</i> subtracted from <i>c</i>)	1.632 „
h. land value (<i>g</i> capitalized at 4 %)	40.80 „
i. land tax assessed at 3 % of the land value (<i>h</i>)	1.224 „

⁵ *Meiji Zenki Kaisei Keizai Shiriyoshu*, ed. Tsuchiya, Takao and Ouchi, Hyoe ("Collection of Historical Material on Finance and Economy in the Early Years of the Meiji Era," Tokyo: Kaizosha, 1936-8), VII, 328-9.

The above tables show that the government was to collect a tax on paddy fields at the rate of 1.224 *yen* per one *tan*. But these were just models; in reality it was in no way the case that every cultivated piece of land in Japan was assessed a land tax at a uniform rate in accordance with the above formulas. There is a document entitled "Proclamation to the People" which was written at the time of the Land Tax Revision, although, it is doubtful whether it was actually published by the government. At any rate, its text clearly shows how difficult it was to apply such a uniform rate of taxation throughout the country, and how the newly founded government was nervous about the people's reaction to the new measure. The proclamation asked for, in the first place, just and correct statements of the sizes of cultivated lands, and, in the second, of their real value, and added a warning that the land concerned might be confiscated by the government in case the measure or value of land reported was unreasonably small. "In such a case," it admonished, "you will be penny-wise but pound-foolish." In the third place, the peasant "should not be surprised" even if he should be assessed a higher or a lower tax than before, because that meant simply that the former inequality was being rectified. One who had to pay a higher tax should realize that he had been hitherto "luckier than others," and so on and so forth.

It is very questionable indeed how far the Land Tax Revision was put into effect rationally and equitably. Above all it is quite doubtful whether the government had a clear idea about the real conditions of agriculture throughout the country; and the government itself does not seem to have had a clear-cut program concerning the minute details of the revision. Then it must also be questioned whether the government officials had the abilities and integrity demanded by the occasion. Probably the attitudes of the people, the landlords, tenants, or independent cultivators all over the country, must have differed one from another depending upon locality, time, and status. Lastly, one must take into account the long years it took for the entire program of tax revision to be enforced. Initiated during the years 1874-5, the part of the program pertaining to agricultural and residential land was carried out in about

1876-7, whereas the part pertaining to forest and uncultivated land was completed in about 1881-2. Nevertheless, equitable or not, it was by this measure that the Meiji government was provided with a constant source of revenue regardless of a poor or rich harvest. According to statistical records, the total amount of rice raised by the government as land tax before the revision was twelve million *koku*, valued at thirty-six million *yen*, but after the shift the government was able to collect 36.7 million *yen*, this being partly due to the fact that new taxable land which had hitherto escaped taxation was discovered by a new land survey. According to the "History of Finance in the Meiji and Taishō Periods,"⁶ the total sum of land tax collection (from agricultural, residential, and other properties) was about thirty-nine million *yen* (87 per cent of the total tax revenue) in 1877; forty million (82 per cent) in 1878; forty-two million in 1879 and 1880; and, during 1881-85, the land tax revenue rose to forty-three million or 70-80 per cent of the total tax revenue except in 1885 when there was an economic crisis, and the proportion of the land tax rose to 86 per cent of the total taxes.

In this way, a modern budgetary financial system was made possible under the Meiji government; but aside from this, the Land Tax Revision had in addition the following significance or effects on the Japanese economy:

(1) As may be easily seen from the degree of industrialization of the Japanese economy at that time, the land tax formed a preponderant proportion of the tax yields of the government; and it was on the basis of this revenue that the latter was enabled to carry out its programs aimed at the achievement of national independence, wealth, and defence, that is, the policies for fostering and strengthening Japanese capitalism. Government expenditures covered a range of items from those which directly served as capital outlays such as model factories, which were later transferred to private ownership at nominal cost and made the purchasers capitalists-employers overnight, to other items such as military, educational, and administrative institutions. All these outlays were

⁶ *Meiji Taishō Zaiseishi*, ed. Ministry of Finance ("History of Finance in the Meiji and Taishō Periods," Tokyo: Keizai Oraisha, 1936-40), Vol. VI.

made with the single purpose of attaining the objective of the firm establishment of Japanese capitalism. In this sense, Japanese capitalism may well be said to have been built upon the surplus exploited from the peasantry and from agricultural production.

(2) The Land Tax Revision was enforced side by side with the consolidation of the private ownership of landed property. The private ownership of land signifies the freedom of the owner to use, make gains from, and dispose of his land; the freedom, that is, to use it as a means of production, to lease it out at a rental, or to buy and sell it at a given price. The government was obliged to indentify the landowner-taxpayer in order to enforce the Land Tax Revision, but that necessity in its turn required the consolidation of the private ownership of land; which was nothing else but a perfect incorporation of land into the framework of a commodity, and consequently of a capitalist economy. In other words, what was to be produced from the land as means of production as well as the prices of those products came to be determined by the law of supply and demand. Further, the "surplus" accruing from landed property and its capitalization came to play an essential part in leasing, renting, selling, or purchasing land. Needless to say, the inertia of past centuries was hard to eliminate immediately despite the change in the law, but at least as a matter of principle the change was there to stay. Incidentally, it is interesting to note that in the model assessments shown above the capitalization rates for the owner-cultivated and the tenant land differed from each other, the former being 6 per cent and the latter 4 per cent. The owner-cultivator is an *entrepreneur* who conducts an enterprise with his own capital fund (farm, livestock, tools, etc.), whereas a landlord is a *rentier* who lives on the interest of loans. Therefore, the income of an owner-cultivator must as a matter of course consist of the interest of his capital outlay and his earning as enterpriser, while that of a landlord merely consists of the interest. Putting aside the question of whether rates such as 6 and 4 per cent were well-founded or not, it is quite rational from the standpoint of capitalism that the capitalization rates of net income were different for the owner-cultivator and landlord.

(3) The shift from a tax in kind to a tax in cash may appear to be a mere exercise in arithmetic whereby the tax payment which had hitherto been made in a certain volume of rice was converted to a payment in a corresponding amount of money; but in reality the change was far more fundamental. Until the Land Tax Revision, the peasant had been an agricultural producer and partly a tribute-payer, but now he became a producer as well as a seller of a commodity. In this latter capacity, he had to sell his commodity; but there existed no guarantee that it could be sold, or, furthermore, sold at a definite price. The Land Tax Revision did not create overnight a rice market around the peasant. Neither was he prepared in his subjective thinking for that kind of economy nor were the objective conditions ripe for such a change, but he was suddenly thrown into the middle of the commodity economy. This permitted the activities of rice-brokers and usurers, who forced the peasant, in dire need of cash for tax payment, to sell his rice at an arbitrary price which they set. That is, the peasant had to give more rice than before for the payment of his land tax; at worst, when he could not get enough money for the tax, he even had to sell his land. The resulting impoverishment of peasants was the cause for the centralization of land ownership and an increase in number of tenant cultivators as far as agricultural areas were concerned. But taking Japan as a whole, it resulted in an increase of the free population, in other words, of the number of people who were free to change their dwelling places in search of new employment. This made possible the increase in the number of those who could sell the labor power mentioned above, the increase, that is, of wage laborers. And this tendency received a further impetus from the fact that the supplementary domestic industries which had played a considerable part in the peasant's economy were lost to him one by one owing to the competition of the capitalist industries, domestic and foreign, as well as the increased need for cash payments in his daily life.

To sum up, the Land Tax Revision played an essential part in reorganizing government finances on modern, capitalistic principles, in creating capital and a capitalist class, and in giving rise to a class of modern industrial workers.

Liquidation of the Feudal Ruling Class

The Land Tax Revision had turned the relationships of the state, peasantry, and land into money relations. It had transformed the relationships provided for by the unwritten constitution of feudalism into ones suited to the law of a capitalist society. But there was another relationship that had to be altered: the relationship surrounding the *samurai* class, that is, the class of feudal lords and their retainers, who formed the ruling-exploiting class of feudal society.

It is said that there were about 400,000 *samurai* families, constituting a population of over two million. They had been living on the tributes raised from the commoners, in particular from the peasant class. Of course they were not idling away their time, but were engaged in various "public affairs" attendant on their status as *samurai*.

The abolition of the caste system, however, was one of the main objectives of the new government established by the Meiji Restoration, because this system was in contradiction to a commodity economy and a capitalist society. Accordingly, the *samurai* class had to be dissolved; it had to be freed from the caste system. This was done by depriving them of their hereditary privilege as *samurai*, of the privilege of holding public office by virtue of birth, and by withholding from them the stipends that had hitherto guaranteed their livelihood.

Should the measure have stopped there, however, it would have been as if a tiger were let loose in a crowd. The existence itself of a government that was still young and of unsteady gait might have been jeopardized. Therefore, it was necessary to secure for these *samurai* a living otherwise than by giving them privileges based on the caste system. It would be to turn a bane into a boon, should their energies be profitably employed for the development of Japanese capitalism.

This was the reason why the government took the step of commuting the pensions it had been paying to the former *samurai*, in return for their surrender of rice stipends, to public bonds. Under the so-called Pension Capitalization Program (*Chitsuroku Shobun*) of 1876 some 210 million *yen* of public bonds and cash were issued by the government for

that purpose. In the above-quoted "Collection of Historical Material on Finance and Economy in the Early Years of the Meiji Era"⁷ there appears a "Brief History of the Pension Capitalization Program," which among other things notes the following:

The Pension Capitalization Program was an administrative measure through which the government hoped to give succor to the displaced persons who were to lose their stipends as the result of the Restoration.

Stipend (*roku*) somewhat resembles today's salary, but was far more stable in its nature. It was divided into three kinds: the permanent stipend awarded to a family as an hereditary right, the life stipend issued during one's lifetime, and the terminable stipend covering a certain length of time. Those who received it were classified into: (1) *kanke*, the imperial house, its courtiers, and vassals; (2) *buke*, the *samurai* class including the Tokugawa family and its vassals, as well as the *daimyo* and their retainers; and (3) *jisha*, the Buddhist and Shinto priests.

Briefly, the Pension Capitalization Program had the following historical meaning:

(1) The *samurai*, the ruling class of feudal society, were completely absorbed into the framework of the capitalist economy. They came to make a living as government officials, as *entrepreneurs* large and small, as *rentiers*, or as simple laborers.

(2) The public bonds and cash awarded them came to function directly, or indirectly through the national banks and other mechanisms, as "capital," this being so as far as the members of the imperial house and peers (former *daimyo* and courtiers) were concerned. In the case of those who received but small sums or of peers and former *samurai* who did not afterwards play their cards cleverly enough, the money was collected in the end by someone else, probably by the well-to-do from the time of the Tokugawa, and similarly functioned as investing capital. We witness here, as in (1), how the process of creating the capitalist as well as the wage laborer was in progress.

(3) Side by side with the capitalization of pensions, the government

⁷ See footnote, p. 61.

made great efforts to assist the former *samurai* in finding new occupations in agriculture, commerce, and industry by providing them with grants-in-aid:

The largest share [of the subsidies] went for the encouragement of land reclamation, sericulture, silk reeling, mulberry cultivation, and cotton-spinning, all of which comprising about 75 per cent of the total appropriation. Further, grants of small amounts were made for such items as tea cultivation, tea-manufacturing, stock-breeding, match-manufacturing, etc. These were the industries the government was trying to develop in order to suppress foreign imports or promote exports overseas; and this proves that the government policy of encouraging the former *samurai* to engage in new industrial or agricultural pursuits was closely linked with its general program of industrialization of the country.⁸

In addition, the project for the development of Hokkaido also played a substantial role in the program of finding for the displaced *samurai* new occupations. New tracts of land were reclaimed for the settlement by the retainers of dozens of *han* or clans, and a number of industrial plants were established on the island for their employment. In this way the road to the development of new productive forces was opened up, though there must doubtlessly have been many a hitch and setback in the execution of this program.

(4) The overwhelming number of former *samurai* sank to the working class or a level near to it, but at the same time it should be noted that the majority of those who assumed key posts in the government or industries, particularly in those large enterprises that were originally state-owned but later transferred to private ownership, came from the warrior class. The élite in fields other than government and business, too, came from the ruling class of feudal society. Had Japan been at such a stage of economic development that she could have undergone a bourgeois revolution without the outside pressures discussed in the preceding chapter,

⁸ Kajinishi, Mitsuhaya; Kato, Toshihiko; Oshima, Kiyoshi; and Ouchi, Tsutomu. *Nippon Shihonshugi no Hatten* ("Development of Japanese Capitalism," Tokyo: University of Tokyo Press, 1957), II, 342.

the élite of the new society, including government officials, bankers, industrialists, lawyers, university professors, etc., would have emerged from the bourgeois class itself. This point is certainly a noteworthy characteristic of Japanese capitalism as distinct from that of Western countries; yet this circumstance does not necessarily change the basic character of the bourgeois revolution in Japan.

Chronicle of Economic Development

The foundations on which the Japanese economy developed as a capitalistic system were laid by the adoption of the policies discussed in the preceding sections; and those politics were of course accompanied by the enactment and perfection of laws and institutions adapted to them. But how was this development realized in the various fields of Japan's economic life?

Let us now examine some of the basic statistics under several headings in order to trace the growth of the capitalistic economy in Japan since the early Meiji period until recent times. The statistical tables in this section were taken, unless otherwise specified, from the *Nihon Keizai Tokeishu: Meiji-Taisho-Showa* ("Statistics of Japanese Economy: The Meiji, Taisho and Showa Eras," Tokyo: Nihon Hyoron Shinsha, 1958), edited by the Japan Statistical Research Institute.

(1) Population

Though the size of the population is one thing and the size of the labor force that can be employed in various occupations is another, the latter of course grows in proportion to the increase in population. But it is doubtful whether the development of the Japanese economy satisfied the need for employment for that growing labor population. Such factors as the decay of traditional domestic industries and the expropriation of land from the peasants following the Land Tax Revision must have forced many people to leave the villages and seek new jobs. But, on the other hand, the new modern industries in their first stage of development could hardly be expected to absorb all of the surplus population. The population, which had remained static during the past three centuries,

began to increase steadily after the Restoration, stimulated by the government policy. (For example, the practice of infanticide, which had been prevalent among peasant families came to be severely punished by law.) These circumstances were conjointly responsible for the continued existence of surplus labor in the labor market throughout the whole process of capitalistic development.

TABLE 4
POPULATION INCREASE (1872-1961)

	Population (in millions)	Relative increase (1872=100)
1872 (5th year. of Meiji)	34.8	100
1882 (15th " ")	37.3	107.2
1892 (25th " ")	40.5	116.4
1902 (35th " ")	45.0	129.3
1912 (1st year. of Taisho)	50.1	144.0
1922 (11th " ")	56.8	163.2
1932 (7th year. of Showa)	65.9	189.9
1942 (17th " ")	72.3	246.8
1952 (27th " ")	85.8	275.3
1961 (36th " ")	94.3	279.6

(2) Role played by government finances

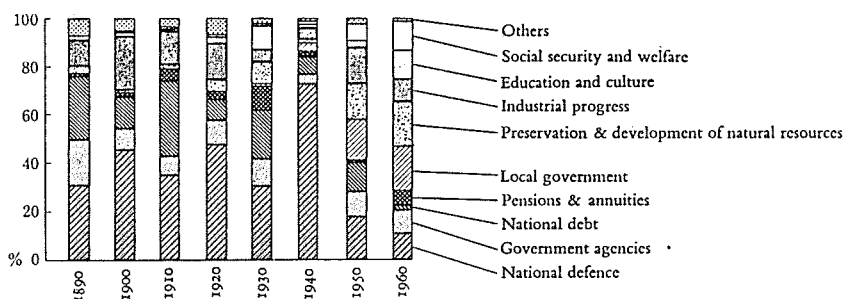
Though this is partly a repetition of what I have said on previous pages, the outstanding features of government finance in the first half of the Meiji era were:

Government revenues: the issue of paper moneys and bonds and borrowings, resorted to in a rather conspicuous way in the early part of the regime, formed only 23 per cent of the sources of revenue when we consider the period as a whole. The largest single item of government revenue was after all the land tax, which accounted for 64 per cent of the total government revenue and 90 per cent of the entire taxes. As for government expenditures, the largest share amounting to 41 per cent of the total, went to the defrayment of pension capitalization, subsidies for new industries, and grants-in-aid for *ex-samurai*

starting new businesses; all of which were mandatory for switching the social organization from the feudal to the new regime. Besides, 16 per cent of the government funds was spent for the suppression of rebellions and equipment of the new army, and 13 per cent for promoting such industries as mining, iron manufacture, shipbuilding, railway construction, etc.⁹

The following tables present a general idea of the trends of government finances from the latter half of the Meiji era to the present day:

TABLE 5
TREND OF GOVERNMENT EXPENDITURES (1890-1960)



(Computation by Research Section, Finance Minister's Secretariat; based on settled accounts.)

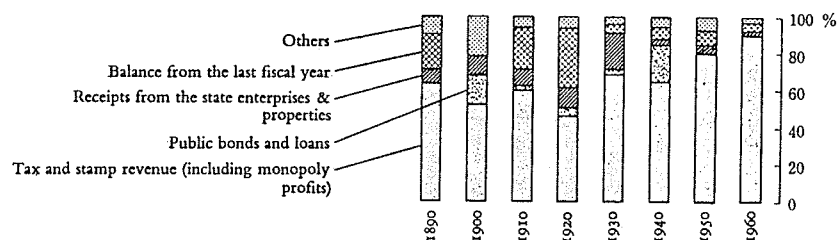
(3) Beginnings of modern industry

An important step taken by the Meiji government for the purpose of importing industrial techniques was the hiring of foreign experts. For instance, we are told that, as of March, 1872, the "total number of foreign advisers and specialists hired by the government was 214, of which 111 were Englishmen, 50 Frenchmen, 16 Americans, 9 Chinese, 2 Indians, and 18 of other nationalities."¹⁰ The "Chronology of the Development

⁹ *Zusetsu Nippon no Zaisei*, ed. the *Oriental Economist* ("Japanese Government Finances in Charts," Tokyo: Toyo Keizai Shimposha, 1962), p. 102.

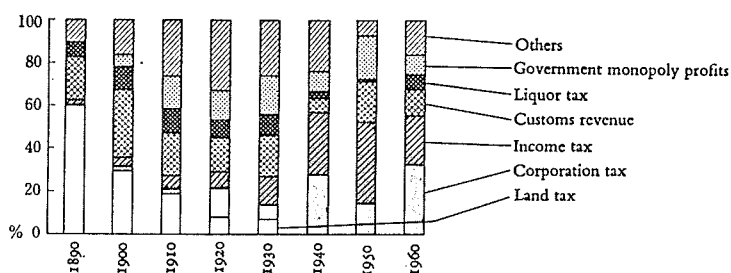
¹⁰ Okazaki, *et al.*, *op. cit.*, p. 18.

TABLE 6
TREND OF SOURCES OF REVENUE (1890-1960)



(Computation by Research Section, Finance Minister's Secretariat; based on settled accounts.)

TABLE 7
TREND IN SOURCES OF TAX REVENUES (1890-1960)



(Computation by Research Section, Finance Minister's Secretariat; based on settled accounts.)

of Japanese Capitalism" by Okazaki, *et al.*, gives year-by-year lists of names of foreigners invited from abroad for the operation of various branches of industry and agriculture. The establishments those foreign advisers served and the techniques they brought to Japan covered the whole range of modern industry.

Already in the last years of the Tokugawa era, such Western industrial plants as iron smelteries and foundries, munitions factories, dockyards, cotton spinneries, and glassworks were set up and operated by such clans as the Satsuma, Hizen, and Choshu, mainly to provide for military preparations. The Meiji government not only inherited and enlarged their operation, but introduced under state ownership still other industries such as mining, sulfuric acid manufacture, silk filature, paper manufacture, cement, cotton and woolen textile manufacture, sugar refining, etc. In later years these model factories were sold to private *entrepreneurs* at absurdly low prices, excepting those industries that were directly connected with the national defence. The promulgation of the *Kojo Haraisage Gaisoku* (Law on the Transfer of Factories) in November, 1880, symbolizes the government industrial policy at that time. Lack of space prevents me from giving here the long list of the industrial plants thus transferred to private ownership; as well as that of the beneficiaries of this law who were to become leading industrialists of the Meiji era and build financial empires called *zaibatsu*. What I can do now is to advise the reader to refer to the "Chronology" by Okazaki, *et al.*, which records the beginnings of all these industries with dates and places of establishment together with their classifications into state- or private-owned enterprises.

In this manner, almost every kind of industry had been transplanted and developed by the time of the outbreak of World War I in 1914. It is interesting to note that the places of establishment were scattered all over the country, a fact indicating that every part of Japan was already ripe for the new industrial development. Here I shall begin with the dates of the establishment of the first factories in various sectors of the manufacturing industry:

Machine spinnery, 1870: Silk mill in Maebashi, Gumma Prefecture equipped with 3 Italian-made wooden machines, later increased to 12; transferred to private ownership in 1875. (Later French machines were introduced in various places; also Japanese-invented and manufactured machines were put into general use.)

Machine weaving, 1871: Manufacture of cotton flannel in Wakayama. 1874: Installation of Western weaving machines in Nishijin, Kyoto.

Sugar refining, 1869-70: Sugar refining by Western methods in the Satsuma (Kagoshima) *han*.

Paper manufacture, 1871: Installation of the first Western-type paper mill by the government; sold to private ownership in 1873.

Ceramic industry, 1870: A Mr. Wagner, a specialist in porcelain manufacture, hired by the Nabeshima (Saga) *han* for improvement of the ceramic industry. 1871: First fire-brick kiln in Shibaura, Tokyo. 1878: The Koransha, a ceramic manufacturing company in Arita, Saga Prefecture, imported a complete set of porcelain machinery from Limoges, France.

Chemical industry, 1873: Sulfuric acid plant. 1875: Match factory (its products were first exported to Shanghai in 1877.) 1880: Manufacture of sulphate of soda, hydrochloric acid, soda, and chloride of lime. 1887: Artificial fertilizer, 1889: Celluloid.

Shoemaking, 1870: First shoemaking factory.

Printing, 1870: Copperplate printing machine imported from England. 1870: First printing house established in Nagasaki.

Town gas, 1874: Gas works starts operation under native-foreign joint management in Hyogo with a capital of \$60,000.

Shipbuilding, 1876: Founding of the Ishikawajima Dockyard in Tokyo. 1890: A 610-ton ship launched by the Mitsubishi Dockyard in Nagasaki. 1892: A 640-ton warship launched by the Onohama Naval Dockyard.

Beer brewery, 1877.

Iron and steel, 1885: Modern iron works under government ownership in Kamaishi, Iwate Prefecture. 1887: Steel-making by crucible furnace as a private enterprise. 1889: Introduction of the French open-hearth furnace for steel-making. 1894: Output of pig iron by blast furnaces surpasses that of pig iron melted from iron sand.

Machine making, 1875: Manufacture of telegraphic instruments. 1881: Establishment of the Meikosha factory (Tokyo) and the Osaka Tekkosho.

Electricity, 1883: Establishment of the Tokyo Electric Light Co. Ltd. End of 1896: Number of electric light companies, 33. Their total invested capital: 4.3 million *yen*. Total number of electric lamps in the country: 116,406.

The following figures show factories employing ten or more workers including apprentices (office workers are excluded). Changes in the proportions of the factories equipped with prime movers as well as in the

relative importance of female workers may be said to characteristically symbolize the process of development of Japanese capitalism.

TABLE 8
FACTORIES AND FACTORY WORKERS

	No. of factories		No. of factory workers (in 1,000)		
	Total	No. of those equipped with prime movers	Male	Female	Total
1894	5,985	2,408	142	239	381
1904	9,234	4,000	182	301	484
1914	17,062	10,334	319	535	854
1918	22,391	15,632	646	763	1,409

TABLE 9
CHANGES IN THE STRUCTURE OF INDUSTRIAL PRODUCTION
(in percentages)

	Food prod- ucts		Tex- tiles	Print- ing	Chem- icals	Wood prod- ucts	Ceram- ics	Metals	Machin- ery	Others	Elec- tricity & gas
1878	64.8	21.7	—	4.8	—	0.9	6.6	—	1.2	—	—
1888	45.7	31.0	0.9	6.5	4.7	2.8	4.9	0.8	2.5	0.2	—
1898	35.7	44.9	1.0	5.2	2.4	1.7	4.3	0.9	3.6	0.3	—
1908	29.9	40.5	1.4	7.3	2.6	2.6	5.2	4.2	5.2	0.9	—
1918	18.3	43.4	1.2	12.2	2.1	2.6	5.3	10.1	3.4	1.3	—
1928	16.0	40.1	2.6	13.2	2.7	2.9	7.7	8.9	3.5	2.4	—
1937	9.0	24.1	1.5	18.9	2.3	2.3	21.0	14.7	3.6	2.6	—

This table prepared by the Industrial Research Center of the former Nagoya Commercial College is very illuminating in that it shows the changes in relative importance of food and textile manufacturing on one hand, and those of the metal, machinery, and chemical industries on the other.

Let us now survey the figures for the production of important goods:

Raw silk: The production of raw silk increased steadily from 363,000 *kan* (one *kan*=3.75kg.) in 1878 to 1,177,000 *kan* in 1891; it rose to over

two million *kan* in 1906 and to over three million in 1910. This tendency continued with 6.36 million *kan* produced in 1919 and 10.58 million in 1928, until the peak was reached at 11.64 million in 1935. It plummeted to 1.39 million *kan* in 1945, or to the level of 1894. But in a few years after the end of the war, production recovered to reach a level of four million *kan* in 1952.

Cotton yarns: The output of cotton yarns grew from six thousand tons in 1888 to forty thousand in 1893, 120 thousand in 1898, 212 thousand in 1903, 377 thousand in 1918, and 726 thousand in 1937; but dropped to about ten thousand in 1945. Production recovered to a level of 300 thousand tons in 1954, or to the level of 1910.

Coal: The output of coal continued to rise from 210 thousand tons in 1874 to one million in 1883, 2.01 million in 1888, 10.09 million in 1903, 31.27 million in 1919, and reached a peak of 56.47 million in the year of the outbreak of the Pacific War (1941). It dropped to 20.38 million tons in 1946, but recovered to 55.41 million in 1961.

Iron and steel: The earliest figures available on iron and steel production are those for 1896. In that year, the output of pig iron was 26,000 tons, which rose to 141,000 tons in 1906, to 317,748 tons in 1914 (the first year of World War I), and to 596,000 tons in 1919 (the last year of that war). The figure dropped to 472,000 tons in 1921 (an economic recession), but later kept on steadily increasing, reaching 1,092,000 tons in 1928. It again fell from 1,161,000 tons in 1930 to 917,000 tons in 1931, the year of the world economic crisis and of the Manchurian Incident, after which it began to increase very rapidly. It reached 2,308,000 tons in 1936, and 6,095,000 tons in 1941, the year of the attack against Pearl Harbor. Annual outputs of ordinary steel were, successively: 1,192 tons in 1896, 69,379 tons in 1906, 219,000 tons in 1912, 283,000 tons in 1914, 565,000 tons in 1921, 1,043,000 in 1925, and 2,043,000 tons in 1930. It dropped to 1,663,000 tons in 1931, but showed continuous and rapid increases in the following years, marking a peak of 4,961,000 tons in 1939.

Electric power: Capacity continued to rise from a mere forty-four kilowatts in 1903 to 597 thousand kilowatts in 1912, 2,063,000 kilowatts

in 1923, and 3,203,000 kilowatts in 1926. The maximum capacity of power generation became over nine million kilowatts in 1941, and did not suffer any remarkable decline at the end of World War II, staying around the level of ten million kilowatts in the period 1944-51.

(4) Development of agriculture

The introduction of new crops, advanced agricultural equipment, and improved techniques of agriculture, sericulture, and animal husbandry from abroad were major items in the agricultural policy of the Meiji government. For example:

In April 1870, American cotton seeds were imported and distributed to various provinces for experimental cultivation. Seeds of pasturage grass, sugar beet, turnip, etc., were imported by the Tokyo Land Development Office. From that year until 1890, the seeds or seedlings of the new varieties of the following crops were imported and distributed to various prefectures: vegetables, rice, wheat, barley, corn, millet, fruit trees, tobacco, cotton, hemp, tea, peanuts, olive, cinchona, hop, indigo plants, grass bulbs of flower plants, tropical plants, etc.¹¹

The total cultivated area in 1880 was 4.5 million hectares; in 1890, 5.03 million; in 1900 5.06 million. The following table gives the total cultivated areas and distribution of owner- and tenant-cultivated land since 1903 (36th year of Meiji); but the figures after 1949 (24th year of Showa) are not included because of the abolition of the tenancy system under the land reform following World War II.

Paul Mayet, a German agricultural expert then employed as an adviser by the Japanese government, maintained that, since the average increase of tenant land was annually 2.5 per cent in the period 1883-7, there would be no owner-cultivators in Japan in twenty-four years' time (or in 1911 counting from 1887), if this tendency did not abate.¹² Also the number of those qualified to vote by payment of a land tax of five *yen* or more decreased from 1.81 million in 1881 to 1.08 million in 1894, and that of those eligible for office through payment of ten *yen* or more

¹¹ Okazaki, *et al.*, *op. cit.*, p. 18.

TABLE 10
CHANGES IN CULTIVATED LAND AREAS AND DISTRIBUTION
(in 10,000 hectares)

Year	Paddy fields			Dry fields			Total cultivated area		
	Total	Owner-cult.	Tenant-cult.	Total	Owner-cult.	Tenant-cult.	Total	Owner-cult.	Tenant-cult.
1902	283	144	139	243	149	99	527	292	234
1908	287	144	144	263	157	106	550	301	250
1913	295	144	150	286	172	114	579	312	263
1918	300	145	155	302	180	123	603	325	278
1923	307	148	158	297	175	122	604	323	281
1928	315	154	161	294	176	118	609	330	279
1933	323	151	172	280	168	113	603	319	284
1938	321	153	168	287	172	115	608	325	283
1943	312	146	166	260	164	95	572	310	262

dropped from 879 thousand to 574 thousand in the same period.¹³ These figures show that there was a spectacular process of shifts of landownership and concentration of land in the hands of the landlord class in the first half of the Meiji era. Though the above table tells us that Mayet's prophecy did not come true, there must have been frequent fluctuations in the fortunes of individual peasants.

There were about 5.38 million agricultural households in 1906, of which 3.82 were engaged exclusively in agriculture, while 1.56 were engaged in supplementary industries. The absolute number of total agricultural households did not change very much until the end of World War II, staying near the level of 5.50 million throughout. The 5.50 million total households in 1910 were broken down into: 1.83 million owner-cultivator households, 2.15 million part-owner and part-tenant households, and 1.5 million tenant households. The proportions of these three groups did not change very much until the last war. However, the relative importance of agriculture continued to decrease from the early Meiji years as a result of the continuous increase of the total population.

¹² Ouchi, Tsutomu. *Nippon Shihonshugi no Nogyo Mondai* ("Agricultural Problems in Japanese Capitalism," Tokyo: Nippon Hyoronsha, 1948), p. 135.

¹³ Norman, *op. cit.*, p. 147.

Moreover, since there was no significant progress in methods of agricultural production nor sizable increase in its productive forces, the relative position of agriculture in the Japanese economy kept dropping still more markedly.

The following table indicates the number of agricultural households classified according to the area of cultivated land:

TABLE II
NUMBER OF AGRICULTURAL HOUSEHOLD
(IN 1,000)

	Total	Under 0.5 hec.	0.5-1 hec.	1-2 hec.	2-3 hec.	3-5 hec.	Above 5 hec.	Others
1908	5408	2016	1764	1055	384	163	62	—
1918	5561	2997	1845	1144	350	154	72	—
1928	5576	2938	1895	1210	321	133	70	—
1938	5520	2854	1087	1329	314	123	76	—
1950	6176	2522	1973	1340	208	77	48	8.4
1961	5898	2212	1862	1421	272	56	64	12
Percent- age:	100	37.5	31.6	24.1	4.6	0.9	1.1	0.2

This table shows that an overwhelming majority of the agricultural population was made up of petty and small peasants. By careful examination of this and the following table, as well as the figures regarding the distribution of owner- and tenant-cultivated land in the preceding section (a), we can figure what changes were occurring in agriculture, in the villages, and in the peasants' lives as the result of the development of a capitalist economy.

In the next table, Group I represents the households which are mainly engaged in agriculture with additional income from other pursuits, while Group II represents those whose main sources of income lie in industries other than agriculture.¹⁴

Although this table mainly concerns the years after World War II, according to another source covering the period 1906-40 the number of households engaged exclusively in agriculture fluctuated between 3.7 and

¹⁴ *Nippon Kokusei Zue*, ed. Yano, Ichiro ("Japan in Statistics and Charts," Tokyo: Koku-seisha, 1963), p. 163.

TABLE 12
DISTRIBUTION OF HOUSEHOLD ENGAGED EXCLUSIVELY
IN AGRICULTURE AND THOSE PARTLY ENGAGED IN IT

	Employment in Agriculture in 1941-1961				
	Total	Engaged only in agriculture	Engaged partly in agriculture		
			Group I.	Group II.	Total for Groups I & II
Actual numbers					
(in 1,000):					
1941	5412	2245	2019	1148	3167
1950	6176	3086	1753	1337	3090
1960	6057	2078	2036	1942	3978
1961	5898	1552	1800	2546	4346
Percentage:					
1941	100.0	41.5	37.3	21.2	58.6
1950	100.0	50.0	28.4	21.6	50.0
1960	100.0	34.3	33.6	32.1	65.7
1961	100.0	26.3	30.5	43.2	73.7

4.1 million, while that of households engaged in additional industry amounted to between 1.4 and 1.7 million. The majority of the members of this latter type of household who were engaged in industries outside agriculture were of course wage laborers, and the rest were mostly in small-scale retail businesses. The remarkable increase in the relative importance of this type of household in recent years and particularly of those belonging to Group II in the above table tells us how the rapid tempo of industrialization had brought far-reaching consequences to Japanese agriculture and the farming population.

Let us turn to the trends of production of paddy field rice and sericulture as representative crops of Japanese agriculture. Table 13 gives the averages for every ten years and Table 14 those for every five years.

(5) Foreign trade

The growth of the Japanese economy was also clearly reflected in the development of foreign trade, that is, commodity exchange in the world market. The lists in Table 15 are all based on information from the previously-quoted "History of the Japanese Financial System in the Early Part of Meiji" by Asakura Kokichi.¹⁵

¹⁵ See footnote, p. 41.

TABLE 13
PADDY FIELD RICE PRODUCTION

Period	Total cultivated area	Gross yield	Yield per 1 tan**
Actual figures:	hectares	<i>koku</i> *	<i>koku</i>
1941-50	2,646,000	36,109,000	13.63
Indexes:			
1883-92	100.0	100.0	100.0
1893-1902	103.6	109.6	105.9
1903-12	107.1	131.9	123.3
1913-22	111.7	154.0	138.3
1923-32	115.5	160.3	139.0
1933-42	115.3	171.1	148.6
1943-52	108.7	163.7	150.7
1950-54	117.2	165.8	141.7

**Koku*: about 5 bu.

***Tan*: about 245 acres

TABLE 14
SERICULTURE: AREAS OF MULBERRY FIELDS AND COCOON PRODUCTION

Average of 5 years ending in	Total mulberry fields (in 1,000 hectares)	Gross output of cocoons (in 1,000 <i>kan</i> *)	No. of households engaged in sericulture (in 1,000)
1878		9,422	
1889	218	11,847	
1899	300	25,126	
1909	433	36,299	1,508 (in 1911)
1919	523	72,220	1,942
1929	626	102,093	2,217
1939	533	90,818	1,651
1944	305	40,312	1,139
1947	172	14,261	820

**Kan*: 3.75 kg.

TABLE 15
EXPORTS AND IMPORTS

a. *Proportions of raw silk and tea in the total exports, 1868-82*

Total exports	302 million <i>yen</i>	100.0%	
Raw silk and related products	141 " "	46.7%	71.1%
Tea	71 " "	24.4%	

b. *Proportions of manufactured products in the total imports, 1868-82*

Total imports	379 million yen	100.0%	
Cotton products	136 " "	35.9	} 68%
Woolen goods	67 " "	17.8	
Sugar	38 " "	10.1	
Arms and Machines	16 " "	4.2	

c. *Staple exports, 1882-93*

Total exports	699 million yen	100.0%	
Raw silk	286 " "	40.9	} 51.8%
Tea	82 " "	10.9	
Matches	12 " "	1.7	
Ceramics	13 " "	1.8	

d. *Staple imports, 1882-93*

Total imports	629 million yen	100.0%	
Cotton products	111 " "	17.8	
Sugar	81 " "	12.9	
Cotton	53 " "	8.5	
Spinning machines	61 " "	9.0	
Woolen goods	63 " "	10.1	
Iron and iron products	42 " "	6.8	
Petroleum	37 " "	6.0	
Steamships	8 " "	1.3	

e. *Trends of the proportions of manufactured products in the total exports and imports, 1868-1957*

	Exports	Imports
1868	1.1%	60.6%
1893	24.5	33.1
1898	25.9	28.1
1905	32.0	26.8
1935	58.1	11.6
1957	70.8	14.5

f. *Trends of the proportions of raw materials in the total exports and imports, 1868-1952*

1868	26.3%	5.0%
1893	10.5	21.6
1905	8.6	32.7
1917	5.1	54.5
1952	3.2	54.3

These figures concerning the development of overseas trade are self-explanatory. I should add that the foregoing is far from being an exhaustive chronicle of the economic progress made in the Meiji era, but only gives the highlights of some of the significant events in the course of Japan's transformation into a modern capitalist society. By a careful study of the facts and figures, however, one may picture the general outline of how the policies of the Meiji government and the level of economic maturity already reached before the Meiji Restoration worked together to make the development of productive forces and the social division of labor possible in various sectors of industry, including agriculture—a development which resulted of necessity in the expansion of a commodity market, and consequently of a capitalist economy.

“Stages of Development of Japanese Capitalism”

Here I want to quote from Okazaki Saburo's “Stages of Development of Japanese Capitalism” in order to sum up what I have thus far discussed in this chapter.

Generally speaking, capitalism passes through two different stages in the process of its development. In its first stage, it has not yet become the dominant economic system in the society, although its development has already begun. In the second stage, it has already matured enough to become the dominant economic factor in the society. . . .

In what manner is the transition from the first to the second stage accomplished? To supersede the method of production dominant in the first stage of capitalism, the capitalistic method of production itself must be revolutionized; that is, the productive forces based on the capitalistic method of production

must become overwhelmingly greater than those based on the former method.

This can be done, however, only through an introduction of machinery into the production process. In other words, for capitalism to pass from the first to the second stage of its development, that is, for capitalism to become the dominant economic system, it must undergo an industrial revolution. . . .

It is its organization of labor that characterizes the early forms of the capitalistic method of production as distinct from the preceding method. This particular form of labor organization is the cooperation based on division of labor, which is materialized in the handiwork factory (*Manufaktur*) in industry. The shift from individual labor to cooperation based on division of labor of necessity calls forth an increase in productive forces. Nevertheless, in the handiwork factory one can still not find any fundamental change in the means of labor. Therefore, it still falls short of establishing complete predominance over the former method of production. As long as the capitalistic method of production is confined to such a phase, it cannot supersede the former method and become the dominant economic system of the society. Capitalism still remains in its first stage of development. The period of *Manufaktur* in its genuine sense found in England since the middle of the 16th to the end of the 18th century is a typical example of this first stage of development of capitalism.

The introduction of machinery, however, brings a complete change in the situation. This revolution in the means of labor provides the cooperation based on division of labor, that is, the capitalistic organization of labor already in existence, with a material basis on which to fortify itself and to increase the productivity of labor by leaps and bounds. Thus, in the case of the manufacturing industry, a factory equipped with machinery takes the place of the handiwork factory; and production by machinery establishes predominance with its productive forces, which are far superior to those of the handiwork method of production. The growth of capitalism gains momentum, and soon it becomes the dominant economic system by superseding the *Manufaktur* method. The period wherein machine production begins to be introduced into the production process until it becomes the dominant method of production is the time of industrial revolution, that is, the transition period from the first to the second stage of development of capitalism. England from the end of the 18th to the beginning of the 19th century is a typical example of this transition period.

What was the course of development in Japan? . . . The production method

based on machinery began to be transplanted into this country around the time of the opening of foreign trade in the middle of the 19th century, and was accelerated by forceful measures following the establishment of the Meiji government, until it became, after a breathless development, the dominant method of production in the first years of the 20th century. Therefore, the period of industrial revolution in Japan falls in the half century from the middle of the 19th, when the production method based on machinery began to be introduced into the country, to the beginning of the 20th century, when it became the dominant method of production. . . .

However, not only at the juncture where the production method based on machinery began to be transplanted, but even after the Meiji government started purposefully to accelerate its development, the production methods of capitalism itself had been but meagerly developed in Japan; or she was only showing the first signs of such a development. The actual development of the cooperation based on division of labor in forms such as handiwork factories or other pre-machinery methods of production took place simultaneously with the introduction of production based on machinery, and mainly as the result of the promotion and encouragement on the part of the feudal lords and the Meiji government. What is more, these primitive forms of capitalistic production which had begun to develop rather belatedly were soon overwhelmed by a rapid growth of production based on machinery. Consequently, whereas the period of industrial revolution in England was the transition period from the first to the second stage of development of capitalism, in the case of Japan it coincided with the first stage of capitalistic development itself. It is here that the peculiar nature of the development of capitalism in Japan originates. . . .

Thus, in the case of Japan, the first stage of the development of capitalism was superimposed upon the period of industrial revolution. In the same manner, the second stage which followed the industrial revolution in Japan was coincident with the stage of imperialism itself. In the case of England, there was a period of a so-called *laissez faire* capitalism between the time capitalism reached the second stage after accomplishing the industrial revolution and the time it entered the period of imperialism in the latter part of the 19th century. In Japan, however, as soon as the industrial revolution had been more or less completed at the beginning of the 20th century, there appeared in her economic and political systems signs of imperialism. . . . And this was, just as in the case of the industrial revolution, an inevitable outcome of the fact that the develop-

ment of world capitalism compelled a backward country to go through, in a shorter space of time, the process of development for which an advanced country was allowed a long time to complete. In doing so, however, capitalism in a backward country has to take a peculiar form, distinct from that in an advanced country. And this peculiarity in the phase of imperialism is nothing else but the consequence and development of that already found in the phase of industrial revolution.¹⁶

Here I want to propose to the reader the use of this formulation by Okazaki for summarizing what I have been telling you in the first two chapters of this book. I believe that, by applying the above summary in each specific period or sector of Japanese capitalism, the reader will be able to grasp its meaning in correlation with the entire course of the latter's development.

Japanese Economy before World War I

Japanese capitalism, or the prototype of Japanese imperialism which was brought to ruin by World War II, had already taken a definite shape before World War I. Before going further, let us sum up the general or basic characteristics of that prototype.

(1) Predominance of the state and of state capital

Not only did the state endeavor to foster and strengthen the capitalist economy either through legislative and administrative measures or by granting subsidies, but the state itself was a huge *entrepreneur* both in the field of industry (the national railway, telecommunication, monopoly of tobacco and salt, national forests, and arsenals) and in finance (the Bank of Japan, special banks such as the Industrial Bank of Japan, Hypothek Bank of Japan, Yokohama Specie Bank, etc., and postal savings).

(2) Supremacy of giant private capital

As Okazaki remarks, the Japanese economy lived through the first and the second stages of capitalistic development at the same time. Further, it did not experience the phase of free competition which characterized the

¹⁶ Okazaki, Saburo. *Nippon Shihonshugi no Hatten Dankai* ("Stages of Development of Japanese Capitalism," Tokyo: Kawade Shobo, 1954), pp. 113-7.

second stage in countries like Britain, notwithstanding the fact that during boom years excessive competition ensued between the numberless enterprises which had mushroomed within the narrow framework of the Japanese economy. With such circumstances as its general background, one of the basic characteristics of the Japanese economy was the predominance of but a few giant capitalistic enterprises. Some of them were direct descendants of the big merchant houses which had already existed in the Tokugawa era, but in most cases they were born in the early years of the Meiji era, backed by the strong support of the government and closely connected to the state capital. Under such peculiar conditions, Japanese capitalism was in a sense a monopolistic capitalism, or a state-monopolistic capitalism from the beginning.

(3) Overpopulation and latent unemployment

Throughout the process wherein the Japanese economy was being reshaped as a capitalist economy, the relationship of the employer versus the employee was almost without exception an unfavorable one for the latter. The supply of labor habitually exceeded the demand for it. Abundance of individual enterprises employing only family labor but no hired hands also reflected the wide spread existence of overpopulation and latent unemployment.

The overall tendency of the Japanese economy was, except in the periods of economic depression and crisis, that of a gradual increase in the employed or the gainfully occupied population. Notwithstanding that tendency, there still existed overpopulation and latent unemployment. Here we should distinguish unemployment which is caused by discharge of the labor force from industry from that representing a labor force that has not been employed by industry at all.

(4) Abundance of small and dwarf-sized enterprises

Too small capital funds, outdated techniques, and undifferentiated states of business and household economy—these features characterized a majority of enterprises. The very existence of the people who were willing to be employed for the lowest possible wages and under the worst possible working conditions, in other words, the existence of large-

scale overpopulation and latent unemployment, was the major factor which enabled such a situation to arise. The following percentages from the work compiled by the Japan Statistical Research Institute¹⁷ of the number of factories, etc. classified by the size of plants, clearly illustrate this whole situation:

TABLE 16
CLASSIFICATION OF FACTORIES ACCORDING TO THE NO. OF WORKERS

	<i>Plants employing</i>			
	5-29 operatives	30-99 operatives	100-500 operatives	over 500 operatives
<i>No. of factories:</i>				
1909	85.6	10.6	3.4	0.4
1942	86.9	9.7	2.7	0.7
<i>No. of workers:</i>				
1909	34.8	21.7	22.6	20.9
1942	25.9	15.6	17.3	41.2
<i>Output:</i>				
1909	20.5	18.8	29.4	31.3
1942	20.4	15.4	19.4	44.8

(5) Cheap labor

Low wages, long working hours, bad working conditions—these, too, have been the well-known characteristics of Japanese capitalism.

(6) Poverty of the peasants

The position of the landowner had gradually improved since the beginning of the Meiji era insofar as the ratio of land tax to the total farm crop kept decreasing. While the government's share in the agricultural products was 50 per cent in feudal times, it was reduced to 34 per cent around the time of the Land Tax Revision, and to 11.5 per cent between the 11th-20th year of Meiji (1878-87).¹⁸ There was a steady increase in the land under tenancy, the number of tenants, and also in the rate of farm rents. Independent cultivators, too, were mostly small peasants, or owners of dwarf-sized farm lands. For both the owner-cultivator and the

¹⁷ See p. 77.

¹⁸ Ouchi, *op. cit.*, p. 124.

tenant, life was hard under the commodity economy. The government policies were not, after all, purported to alleviate the conditions of these agriculturists. Japanese agriculture, composed of a majority of landless peasants and owners of small farm lands, if any, was indeed a huge hotbed of overpopulation and latent unemployment, and this was a peculiarity of Japanese agriculture.

(7) Narrowness of the domestic market

The market formed by large enterprises and basic industries related to each other as suppliers and consumers is one kind of market (primary market), but there is another kind of market representing an important sector of the domestic market (secondary market). This latter is created by the purchasing power of small enterprisers, workers, and peasants who make up the great majority of the population. As an inevitable result of this, in Japan the secondary market has been very limited in size. Of necessity, the primary market too has had difficulties in expanding, since its growth has been hampered by the narrowness of the secondary market. The imbalance between the growth of productive forces resulting from the development of capitalism on the one hand, and this narrowness of the domestic market on the other, used to have a particularly serious influence on the Japanese economy.

(8) Thirst for foreign markets

Aside from the establishment of a centralized state, the development of a capitalist economy was an essential condition for achieving the national independence which was the main objective of the Meiji Restoration. For such a development, however, Japan had to import many a new technique and institutional system from abroad into her own economic and military systems. Though this is not necessarily true, it is told that our Meiji leaders were rather wary of importing foreign capital, alarmed at the precedents set by India and China. Therefore, under these conditions, they could do nothing but promote exports in order to pay for imports. Without the importation of necessary goods, techniques, and talents from abroad, Japan was unable to complete the task of the Meiji Restoration, however much she had reorganized her internal systems by carrying out the Land Tax Revision or liquidation of the *samurai* class. Also expenses

for civil and military personnel, businessmen, and scholars sent for training in Western countries had to be accounted for just as in the case of foreign imports.

In this way, the export of commodities was, side by side with the outflow of gold specie, a "must" for the Japanese economy. Most exportable goods in Japan, which had not yet undergone an industrial revolution, were agricultural products; but what made them exportable was nothing but their low prices. Beneath this low level of prices lurked the low living standard of Japanese workers and peasants.

But this factor of the low prices of exported goods, which was instrumental for the growth of Japanese capitalism, was a result of the narrowness of the domestic market, presenting itself as a fetter to further capitalistic development. And this latter, of necessity, gave rise to a strong urge for expansion into foreign markets. This urge for export, which was also stimulated by Japan's poverty in natural resources, became one of the basic characteristics of Japanese capitalism.

(9) Expansionism and militarism

Japanese capitalism entered the arena of world history in an age in which "commodities followed the national flag." As a rule, the markets for the sale of commodities or investment of capital as well as sources of raw materials were secured, not necessarily through the law of commodity exchange, that is, the economic law of supply and demand, but by way of armed forces waving the national flag, or else by means of diplomacy backed by military threat. In plain language, the situation was such that these markets could be secured by planting a national flag in a given area, creating a so-called sphere of influence there, and, if possible, making it a colonial territory. It was the age of imperialism, that is, the age of division and redivision of the world.

Japanese capitalism had been showing a tendency to overseas expansion from its earliest days, though this tendency would appear precocious viewed from the stage of internal development then attained. It would be interpreted rather as a natural reaction to "outside pressures." At first, probably the concern for self-preservation, national independence, and the defence of the young capitalism might have been the major factor, but

later on, the very drive to develop a capitalist economy acted as an impetus for overseas expansion and invasion.

Thus, Japan was already involved in hostilities over Formosa and Korea in the early Meiji years. She acquired Formosa and a large amount of indemnity through the Sino-Japanese War, and Korea and South Manchuria through the Russo-Japanese War. By the end of World War I, not only had Japan robbed Germany of her possessions in the South Pacific and her interests on the Chinese continent, but she had also come to exert a strong pressure on North Manchuria, Mongolia, and China proper.

In the course of such a process, Japan was able to recover customs autonomy, and obtain the revision of unequal treaties by abolishing extraterritorial rights, thus realizing the major objective of the Meiji Restoration—national independence. At the same time, however, Japan had turned herself into an imperialist power that exploited and oppressed the other nations of Asia. The growth of militarism and expansion of armaments in Japan followed.

(10) A democratically underdeveloped country

For the development of capitalism there must be freedom of choice and change of abode, of enterprise, occupation, employment, and so on; in other words, society must be democratized at least to that extent. But aside from these features of democracy that are both useful and necessary for the development of capitalism, there are other features that are unnecessary and not useful for it. Though it is doubtful whether it is possible to adopt one aspect of democracy while completely discarding another, it seems that such a state of affairs can last at least for a certain length of time under certain conditions. Japanese capitalism is such an example. In Japan, the elements of democracy that were useful and necessary for capitalism had been acknowledged from the beginning, but the rest that was not useful and deemed unnecessary had been extremely slow in developing. To this latter belonged, first of all, the freedom of the press and learning. No fundamental criticism of the political institutions, including the imperial system, or of the private property system which formed the basis of capitalism, was permitted. Neither was there freedom of demonstration, assembly, and association.

For the augmentation of military strength and productive forces, set as national goals by the Meiji Restoration, it was essential that the great majority of the people, that is, the workers, peasants, and small enterprisers work without complaint under inferior working conditions and cut down their personal consumption to the limit, so that the largest possible surplus could be sucked up by the state and big capital. In this instance, there would have been no problem at all if those persons who held leading positions in the government and big business were also content with the same low living standard as the people at large. However, on the contrary, the living standard of this leading stratum of Japanese society had been largely Europeanized. What served as a pretext, or as a seemingly plausible justification for this, was the necessity for these people to keep their living standard, mode of life, customs, and mores at the same high level as that of Western nations, in order that Japan should catch up with Europe. In this way there arose a so-called dual structure in Japanese social life. As in Britain during the period of her industrial revolution, Japan was split into two nations.

This dual character in national life had its counterpart in a dual structure in the phase of production; that is, in the coexistence of the state enterprises and giant private enterprises on one hand, and dwarf-sized enterprises in industry, commerce and agriculture on the other.

It is unthinkable, however, that those in the inferior position in such a dual structure should be content with such an arrangement forever. They demand universal suffrage from the state. They demand freedom of expression, demonstration, assembly, and association. They try to elevate their position through acquisition of these democratic freedoms. But these demands were not easily yielded to by the government, because the creation and maintainance of the dual structure was indispensable for the attainment of the goals of the Meiji Restoration. The number of those qualified for voting for the House of Representatives in every thousand was: eleven in 1893 when the Constitution of the Empire of Japan had just been promulgated, twenty-one in 1902, thirty-two in 1908 and a mere fifty-six in 1924, six years after the end of World War I. (By comparison, it was 200 in 1928, at the time of the first general

election after the introduction of a general suffrage for men; it rose to 600 after World War II when women were also granted voting rights.) Also there were a series of restrictive regulations and administrative measures regarding the election of members of local assemblies, to say nothing of those concerning the election of members of the House of Peers. All these things cannot but lead us to the conclusion that during these years Japan was still an underdeveloped country from the viewpoint of democracy.

Although at times of economic prosperity or of the victorious conclusion of war, a partial enlargement of the freedoms of the lower classes could be seen along with an improvement of their living standard, in the long run what has been described above continued to be the normal state of affairs. I make it a rule to cite "cheap labor," "the poor peasant," and "the strong soldier" as a "trinity" which enabled Japanese capitalism to accomplish its "miraculous" growth; but it is needless to say that all of these three elements consisted of the common people of Japan. The strong soldier was instrumental in sustaining a powerful state internally and externally, while the basis of the Japanese economy, being developed under the protection of the state, was formed by the workers, peasants, and small *entrepreneurs*.

It was the fate of the Japanese capitalism to face World War I loaded with such problems and contradictions in its structure.

CHAPTER III

Between the Two Wars

World War I and Japan

World War I took place from 1914 to 1919 (3rd—8th year of Taisho). At that time, the United States already led the world in industrial production, but Europe was still considered the center of world economy. Industrial products and capital were flowing out of European countries to underdeveloped areas of the world, while various indigenous products of the latter were being absorbed by Europe. The world economy as a whole was kept more or less in balance in this way; however, the war destroyed this balance.

With the European nations devoting themselves entirely to the war effort, the arteries of commodity exchange in the world economy were completely stopped. The underdeveloped areas of the world suffered from the loss of their sources of supply of industrial products. Naturally, this had the effect of stimulating industrial development in these areas, which eventually led to the growth of native industries and classes of national bourgeoisie, as well as to the nationalist movements of the postwar period. At the same time, however, these areas were looking for new sources of supply. But there were only two countries at that time which could provide such sources: the United States and Japan.

Although there was a great difference in their scope and degree of industrialization, both America and Japan were able to rapidly and extensively develop their economies. They were in a similar position in that they were both able to develop those kinds of manufacturing for which they had previously been dependent on Europe. And thus they

functioned as suppliers of industrial products for underdeveloped areas, as well as of goods of various kinds for the belligerent nations.

In this manner, Japanese capitalism was guaranteed a boundless market and put in a position to expand the scope of its economic activities to the utmost in order to respond to a bottomless demand. The following indexes will serve to give us a general picture:

TABLE 17
JAPAN'S ECONOMIC DEVELOPMENT DURING WORLD
WAR I¹

	1914	1918	Remarks
Exports	331	1,206	in millions of dollars (the figures include trade with Japanese territories)
Imports	331	1,277	
Industrial production	100.0	484.7	Index of the Nagoya Commercial College
Coal	22	31	in millions of tons
Pig iron	318	596 (1919)	in thousands of tons
Ordinary steel	283	565 (1921)	
Cement	749	1,052	" "
Power looms	879	21,914	in thousands of <i>yen</i>
Electric motors	9,028	34,147	" "
Cotton fabrics	182	1,033	in millions of <i>yen</i>
Silk fabrics	148	805	" "
Woolen fabrics	27	122	" "
No. of firms	22,204	37,424	
Total paid-up capital	2,232	6,457	in millions of <i>yen</i>
No. of industrial firms	5,955	12,006	
Their paid-up capital	714	2,085	in millions of <i>yen</i>

Thus, in four year's time, industrial production and trade grew four-fold. Amazing as this certainly is, other statistics show that Japan could not as yet be considered an advanced industrial country, but still was in a middle stage of industrialization. Though the beginning of heavy and chemical industries were seen, Japan at that time was for the most part a country of light industries, and of textile manufacturing in particular.

¹ Adapted by the author from government statistics.

Nevertheless, the industrialization of the Japanese economy in these years was accompanied by a tremendous increase in the number of wage laborers. In 1872, forty years before World War I, the number of employees as against the gainfully occupied population of nineteen million was 1.6 million, or only 8.5 per cent. But in 1920 when a national census in modern terms was for the first time conducted, the number of the employees as against the gainfully occupied population of twenty-seven million was 7.8 millions, or 29.5 per cent. In about half a century from 1872 to 1920, the number of employees increased by 6.2 million as compared with the increase in the gainfully occupied by 7.9 million, which is also to say that 78.5 per cent of the gainfully occupied population were employed as wage laborers. This means that, during about fifty years, seventy-eight persons out of every 100 additional gainfully occupied persons belonged to the category of employees, that is, wage laborers.

There were, of course, great changes also in the levels of prices and wages in the war years, as may be observed from the Table 18.

How about the changes in wages? The following were the standard wages for adequately skilled workers, with allowances in kind such as food, clothes, etc. included in some instances (those in the first group are averages for Tokyo, while those in the second are national averages).

The figures in Table 19 are quoted mainly for historical interest; it must be noted here that most of them concern the occupations belonging to the pre-capitalistic, or at the most early-capitalistic, stage of development. Notwithstanding the fact that the number of both modern factories and their operatives must have grown to a considerable size, the government statisticians do not seem to have paid much attention to them. This in itself symbolizes the low degree of awareness existing at that time in regard to the development of capitalism. It was only in 1923 that an ordinance was issued for the compilation of statistics on labor conditions.

The statistics shown in this section are far from being sufficient either in their range or as adequate proof of existing facts. But the simple fact that most of the indexes had become two-, three-, four-, or even fivefold within a period of four to five years enables us to understand what sudden

growth and violent change the Japanese economy was experiencing during the war years.

TABLE 18
CHANGES IN PRICES DURING WORLD WAR I²

	1914	1918	Remarks
Wholesale price index Tokyo	61.8	152.6	Bank of Japan index; 1934-6=100
Wholesale price index United States	70.0	139.0	1926=100
Wholesale price index Great Britain	108.0	206.0	1867-77=100
Living cost index Tokyo	100.0	216.9	For the factory worker with a monthly income of 60-100 yen.
Polished rice	16.35	55.06	yen/koku, retail price
Chicken eggs	1.77	3.80	yen/kan, "
Cotton cloth	0.49	2.25	yen/tan, "
Charcoal	0.42	1.11	yen/hyo (=4 kan)
Average paddy field	254.00	706.00	yen/tan, national average
Average dry field	138.00	421.00	" "

TABLE 19
CHANGES IN WAGES DURING WORLD WAR I³

Occupation	1914	1918	Occupation	1914	1918
Carpenter	¥1.10	¥2.06	Day laborer	¥0.57	¥1.62
Plasterer	1.15	2.00	Manservant	4.62	14.50
Stonemason	1.40	2.53	(monthly pay)		
Founder	0.71	1.88	Farm hand (male)	0.45	1.19
Smith	0.72	1.71	" (female)	0.28	0.74
Lacquer worker	1.00	2.25	Ship carpenter	0.95	2.19
Printer	0.75	1.43	Silk-reel worker (female)	0.28	0.64
Joiner	0.80	2.20			

² *Nihon Keizai Tokeshu: Meiji-Taisho-Showa*, ed. the Japan Statistical Research Institute ("Statistics of Japanese Economy: The Meiji, Taisho, and Showa Eras," Tokyo: Nihon Hyoron Shinsha, 1958).

³ *Ibid.*

Blossoming of Democracy

The rapid growth of the Japanese economy, or of Japanese capitalism, signified a sudden expansion in the scope of its production and circulation. But such an expansion was unthinkable without an expansion of employment. Thus, in the Japanese economy, with overpopulation and latent unemployment as its basic characteristics, there appeared a shortage of labor, that is, an exceptional state where the demand for labor was in excess of its supply. As a result, the workers, now in a comparatively more favorable position than before in their relation to the capitalists or employers, began to demand wage increases and improvements in working conditions. The demands of the workers were, so to speak, spurred by the rapid rise in prices of consumers' goods, which was one of inevitable consequences of the sudden growth of the economy. No sooner than had the war broken out, there arose a series of labor disputes, which took on an increasingly graver aspect month by month, with ever growing numbers of workers participating in them. Also the number of labor unions and that of the workers organized in them were increasing. While in 1914 there were fifty strikes in which 7,905 workers participated, the figures rose to 497 strikes with 63,137 participants in 1919. It is interesting to note that there were as yet no official statistics concerning labor unions; a record says simply that there were 187 labor unions in 1919.

In those days, both workers' strikes and the labor union movement were most severely suppressed by the capitalist class and the government. The labor movement had been always carried on under semi-illegal conditions since the Sino-Japanese War of 1894-95. Its leaders were constantly exposed to the danger of dismissal by their employers and arrest by the police, and it was not rare that a strike was suppressed by force. The fact that strikes were fought in such circumstances is proof that democracy was progressing. If democracy is something which cannot be given by somebody else, but must be fought for, this was a sign of genuine democracy born on the soil of Japan. Moreover, to recall here the two different kinds of democracy mentioned previously, this was a democracy at once unnecessary and detrimental to Japanese capitalism.

The sudden increase in employment in the capitalist sector of the Japanese economy also resulted in an outflow of the labor force from the non-capitalist sector, which naturally put the tenants in a more favorable position toward the landlords. Just as in the case of workers, the tenants began to form peasant unions and fight tenancy disputes. Though their movements, too, existed under the same unfavorable conditions as the labor movement, we can find here a similar sign of the newly-born democracy. Its meaning must be highly evaluated from the viewpoint of the then existing landlord-tenant relations, often characterized as feudalistic or semifeudalistic. An early record of tenancy disputes only states that there were eighty-five cases in 1917, and 326 in 1919, without mentioning the number of either landlords or tenants involved.

It is said that the number of the *eta* (the filthy) and the *hinin* (outcasts) was about 380 thousand, when these specific pariah castes were declared abolished in 1872.⁴ This is not at all a reliable figure, but assuming that it had increased at the same rate as the whole population, it must have grown to about 600 thousand by 1920. A minority group in Japan, these people were subjected to extremely discriminatory treatment even after their nominal emancipation. A so-called "levelers' movement" demanding abolishment of such discrimination took actual form in the founding of the *Suiheisha* (Levelers' League) in Nara Prefecture in 1921. The movement soon found its way even into the Japanese army, then regarded as an inviolable sanctuary.

The war, democracy as the guiding ideal of the war effort, the Russian revolution in 1917, inflation, high prices, mushrooming of the *nouveaux riches*, luxury coexisting side by side with poverty, confusion and reversal of social values—with all these factors working in the background, there appeared at that time on the scene not only labor and peasant movements but also various other manifestations of democracy.

The movement for the emancipation of women was also in the order of the day. In the years immediately following the founding of the Meiji government, the country was seething with democratic enthusiasm, as is usually the case in any revolution. People were not shocked even at a dis-

⁴ See p. 50.

cussion in public of a possible republican constitution. Likewise, equal rights for men and women used to be taken as a matter-of-course proposition at that time. This atmosphere completely changed, however, when the new government came to solidify its position and definitely set its course in the way we have seen in the last chapter. Women were relegated to a status without rights both in their social and family life. After the turn of the century, however, there had been born a movement that offered criticism of and resistance to such a state of affairs. This was partly due to the fact that women had occupied a significant position in the labor force, but generally speaking, it was the progress in education and in the cultural standards of the nation that caused more and more people to join the fight for women's emancipation.

The women's movement at that time had set itself various goals, ranging from the abolishment of licensed prostitution to equal opportunities in education, but its main objective in politics was woman suffrage. The movement won its first victory when the law was revised so as to permit women to attend political meetings.

The movement for universal suffrage, too, was one of the manifestations of the democratic upsurge in this period. Ever since it was taken up in 1901 by a group of prominent political leaders, who represented the interests of middle and lower bourgeois classes as against those of bureaucrats, financiers, industrialists, and landlords seated in the highest places in the Meiji regime, the demand for universal suffrage had been a perennial issue, both in and out of the Diet. But in the postwar years the movement reached its climax, and at last, in April, 1925, the Universal Suffrage Law (for men only) was passed, and the first general election under its auspices was held in February, 1928.

Though one of the belligerent nations, Japan was in a position of not suffering damages from the war, but rather of enjoying benefits from it. Economic development as well as the raising of her position in world politics had the effect of bringing about the improvement and enlargement of her educational system. Since the latter half of the war period, new universities and colleges were established and old ones were enlarged. In these schools there flourished autonomous student "circles", which at

first bore literary or humanistic tendencies, but which soon began to cross the border from democratic over to socialistic aspirations. And, influenced by the Russian revolution, student socialists were mostly tinged with communist tendencies. This student movement, under communist influence, culminated in the first national conference of the Student Social Science Study Associations in Kyoto in 1925.

At the same time, the outside pressures or influences from abroad, which had played an essential part in bringing about the Meiji Restoration, continued steadily to work in various sectors of our national life. Law, civil and military services, political and economic life, culture, science, technology, and the way of living in general developed under the strong influence of Europe and America. Labor and socialist movements in Japan were no exceptions in this respect.

It seemed then that, during these war and postwar years, democracy had at last blossomed in Japan. Would this blossoming of democracy come to fruit in subsequent years?

Labor, Peasant, and Socialist Movements

I have already mentioned that the Communist Manifesto was published twenty years before the Meiji Restoration, and that the year of the Paris Commune (1871) was the 4th year of Meiji. (Incidentally, the first Japanese translation of the Manifesto was published by Japanese socialists in 1904, the year in which the Russo-Japanese War broke out.) Consequently, it was quite natural that, in the period of the so-called "civilization and enlightenment," or that of the intensive Europeanization in the 1880's, which followed the Restoration, not only the social sciences based on liberal capitalism (political economy and theories of social policy), but also the theories aimed at reform or abolishment of capitalism were introduced into the country. These latter, which might be grouped under the general definition of "socialism," represented tendencies of the widest possible varieties. Some were based on humanistic ideas, others on Christianity. Then, there also was a third group embracing Marxism, and a fourth professing anarchistic creeds. At first, however, these different factions in the socialist movement were not distinctly divided.

On the other hand, as I have mentioned before, the development of capitalism inevitably gave rise to labor problems. The antagonism and struggle between the capitalists and the workers began to be staged both covertly and openly.

Thus, the labor and the socialist movements were destined to be merged together, even though the two might not necessarily have shared a similar attitude or outlook toward capitalism. At the same time, it was unavoidable that both of the movements, born in the framework of Japanese capitalism, with its peculiarly complicated social and economic characteristics as discussed in Chapter II, developed in a manner peculiar to Japan. At any rate, Japan, whose fate it was to enter the scene of world history too late, had to receive Western influences in an haphazard, unsystematic way. What is more, the labor and socialist movements were continuously subjected to severe persecution and suppression by the capitalist class and the government. If we take into account these circumstances, it is understandable that they could by no means follow a normal course of development. Toward the end of World War I, however, it had already become apparent that, in the case of the socialist movement, there were the alternatives of parliamentarianism or "direct action" (peaceful or violent revolution, in today's terms), and, in the case of the labor movement, the alternatives of labor-management cooperation or class struggle. This antagonism between the right and left wings in both movements took on a more and more acute form with every year.

The years just after the war saw an unprecedented high tide of the labor and socialist movements. In 1920, the first May Day in Japan was held at Ueno Park in Tokyo. The Japanese Socialist League was established in the same year, but was soon disbanded by government order. The league represented various factions of Japanese socialists; and a heated controversy between the anarchists and communists was going on within it. The establishment of the Communist Party of Japan in 1922 brought more confusion to this situation, though, in a sense, it had also the merit of clarifying the battle lines.

In this way, Japanese socialism, having been forced underground for long years since the so-called *Taigyaku Jiken* (High Treason Plot) in

1910-11, with its solitary torch kept burning by a handful of the faithful, came into its spring—a spring, though, which would prove to be short-lived. A flood of socialist literature made its appearance, together with other literature on modern thought. Yet here too, the introduction and translation of Western literature were predominant, true to the tradition since the Meiji era. In such circumstances as these, Marxism soon began to occupy a dominant place in the field of social sciences, economics in particular. Of all the Western schools of economic thought, which had been introduced to Japan and which many a Japanese student had studied abroad since the early part of the Meiji period, not one had yet taken firm root in Japanese soil. This was due, in the first place, to the absence in Japan of the conditions described or prescribed in Western textbooks on capitalist economy and society, and, in the second, to the open and covert pressures exercised by the government against the introduction of any progressive or critical thought from abroad. It was into such a Japan, and amidst the great turmoil of new thought and movements, that Marxist theories were more or less openly imported. From the hands of a small group of people, who had hitherto been, so to speak, “social outcasts”, they found their way into the academic and journalistic world. Generally speaking, scholars of the older generation or of conservative outlook were opposed to Marxism; but there were a few pioneers who were converted to it and began to defend it in their journalistic and academic activities. Soon Marxism was spreading like a prairie fire among the university students and young workers. These people were disgusted with the rulers of old Russia but felt deep affection for the Russian people through their love and appreciation of the works of such writers as Tolstoy, Dostoevsky, Turgenev, Chekov, and other giants in Russian literature. To these students and workers, therefore, Russian communism publicized as it was as a realization of Marxist ideals, sounded like a gospel for the whole world to follow. It was as if the ground were ready in Japan for the planting and growth of the communist movement.

When Lenin and his followers established the Soviet government in November, 1917, they were convinced that a socialist revolution in Western Europe was imminent, which, they hoped would come to the

rescue of the premature socialist power in Russia. For the purpose of hastening the course of history, they, therefore, established the Third, or Communist International (Comintern) in 1919, and endeavored to organize its "sections" (national communist parties) in other countries.

In 1922 the Comintern held a conference of Far Eastern nations in Moscow, at which it was decided that a communist party should be established in Japan; which decision was put into effect in June of that year (illegally, of course, under the then existing conditions). Its members were arrested in June, the next year, and, though it was rumored that they passed a resolution to disband, the party was reorganized in 1926. It has since lived through the ordeals of fascism and war until the present time.

It is said that, at first, most of the leaders of labor unions and socialist movements, who had accepted, or at least were sympathetic with, the Marxist viewpoint, had joined the Communist Party of Japan, but soon they came to be divided into two factions. The split was partly caused by the difference of opinion as to whether or no world revolution was imminent, or, in other words, in what conditions world capitalism found itself at that time. Far more important, however, were the following points at issue: Whether it was advantageous to the Japanese socialist movement to be controlled from a remote center which was hardly expected to be possessed of a real understanding of the situation in Japan; and whether the future revolution in Japan would be a bourgeois-democratic, or a socialist revolution? This later point, again, reflected a difference of opinion concerning whether Japan was already in the stage of capitalism, or in other words, whether the nature of her economic and state structures could be analyzed and explained by the laws of capitalism, and in case it could, to what degree they were obeying these laws. This difference of view also led to different tactics and strategies toward Japanese capitalism and the state. Those who remained in the Communist Party adhered to the line that the coming revolution would be of a bourgeois-democratic nature. Others who left it and later were called *Rono-ha* (worker-peasant faction) after the name of their monthly organ, maintained that the coming revolution in Japan would be a socialist re-

volution. The communist line was not always unchanging, influenced as it was by the changes in personnel or outlook at the headquarters of the Comintern. Theses and directives sent from Moscow often appeared to fluctuate between the viewpoints of the Communist party and the worker-peasant faction. At the same time, a heated controversy on the nature of Japanese capitalism was carried on for years between the two factions of Marxist professors and students which faithfully reflected the schism in the practical movement.

The labor, peasant, and socialist movements in Japan were thus distinctly split into two currents: the communist and non-communist. This latter was made up of groups of divergent opinions, with the worker-peasant faction Marxists comprising the left and the so-called reformists comprising the right wing. Suffering internally from such schisms and antagonisms, the progressive camp in Japan naturally could offer little effective resistance and struggle against Japanese capitalism and imperialism. Heroic as were individual actions, which at the time seemed to shake the foundations of the old regime, they were sporadic and disorganized. In spite of the sweat and blood shed by so many people, the movement as a whole could scarcely make its influence felt either in the domestic or in the foreign policy of Japanese capitalism. Japanese capitalism marched ahead on the road to imperialism.

Monopoly Capitalism

A handful of giants among a multitude of dwarfs—such was the picture I have presented previously as one of the characteristics of Japanese capitalism. With such a specific feature as this, the Japanese economy was able to develop miraculously under the purposeful encouragement of the Meiji government to alter its former structure in accordance with the laws of capitalist economy. Even under conditions of free competition between enterprises of similar sizes, the principle of the survival of the fittest eventually prevails in due time, with the result that a small group of the powerful and the superior come to coexist side by side with a majority of the weak and the inferior. But in Japan, the coexistence of the giants and the dwarfs had been found from the very beginning.

In such a manner, Japanese capitalism, having passed through various phases of economic prosperity, of depression, and of war, entered the stage of monopoly capitalism without experiencing that of free competition, as was justly pointed out by Okazaki. The sudden expansion of the Japanese economy during World War I, as well as its similarly sudden shrinking caused by curtailment of foreign markets, had the effect of further accelerating this process. The number of banks in Japan, which was 3,359 in 1901, was reduced, in the postwar years, to 1,595 in 1926, to 1,023 in 1929, and to 663 in 1932. Needless to say, what were called the "Big Five" wielded overwhelming power in the financial world.

It was the same with the manufacturing industry and commerce. Although the number of enterprises was showing a steady increase, there appeared limited groups of leading enterprises (oligopolies) in almost every sector of industry, inside which was usually organized a cartel with the powerful enterprises as its nuclei. There were even trusts which dominated specific fields of manufacturing, while big businesses held domineering positions in domestic and foreign trade concerning staple commodities.

The economist customarily calls this sort of big enterprise which has, in this manner, established a predominant position in its specific field of the national economy a "monopoly capital." Not only had these big enterprises organized themselves into cartels in their own sectors, but they also often formed, with banking capital as a nucleus or intermediary, combines that spread over several sectors. This type of combination is theoretically to be called (as by German economists) a *Konzern*, but its equivalent in Japan, *zaibatsu*, is known by its name all over the world. It must be remembered also that those *zaibatsu* possessed a close relationship with the state, state enterprises, and state capital. Taking into account all these factors, Japanese capitalism may properly be called "monopoly capitalism" or "state monopoly capitalism."

On the other hand, those weaknesses of Japanese capitalism, such as narrowness of domestic market, poverty in natural resources, and overpopulation with its latent unemployment, had been, for the leaders of Japanese capitalism, always matters of concern which had to be settled

one way or another. For them the problem was when, in what manner, and in which direction, to search and enlarge Japan's sphere of influence or colonial possessions. Since the world at large was already in the phase of division and redivision of colonies, Japanese capitalism, too, naturally began to take the path of imperialism or colonial possessions, especially after the Russo-Japanese War when Japan's international position was enhanced and her sphere of influence extended to the Chinese continent.

For example, Japan intensified more than ever her activities in the development of mines and the construction of railways and industrial plants, and in the securing of commercial and financial privileges on the Chinese continent, through connivance with pro-Japanese military cliques. In these ventures, she sometimes acted independently, but she also cooperated with other powers when she found it more profitable. Thus, it was inevitable that she gradually entered into violent competition with other imperialist powers. This, however, by no means meant that Japan maintained friendly relations with the Chinese nation or with other Asian nations. Jawaharlal Nehru of India writes in his autobiography of how he rejoiced at the report of Japanese victory in the battle of the Japan Sea, which he read while crossing the Straits of Dover on his way to England as a young student. He hoped at that time that Japan would become the leader of Asian nations in their war of emancipation against Europe. But in vain. In his book, Nehru perforce laments that, in this respect too, Japan was an imitator of the imperialist powers.

World War I brought a fundamental change into the whole picture for Japan. Germany was defeated and withdrew, for the time being, from the theater of power politics and world economy. Russia was sovietized; and Japanese imperialism, having taken over the German interests and possessions in the South Pacific and China, and having secured a firmer economic basis as well, was now counted as one of the Three Great Powers, side by side with the United States and Great Britain. She had already gained a position from which she was able to negotiate on naval armament with the latter powers, but, at the same time, she became more and more isolated in the camp of the imperialist countries. The lowering of

the relative position of the European countries, brought about by World War I, was the main factor enabling Japanese capitalism to make such amazing developments. Now these same circumstances quickened economic and cultural developments in colonial and semi-colonial lands, thereby stimulating national consciousness and independent movements. It was this tide of nationalism with which Japanese imperialism was now confronted.

Economic Crises

After World War I, Japan was one of the first countries to be attacked by an economic crisis, which soon spread to become a world-wide one. This was an inevitable phenomenon arising from the readjustment process from a wartime to a peacetime economy, but, basically, in Japan it was caused by the fact that Japan's productive forces, expanded to their limit during the war, had to face a sudden contraction of the foreign market.

The secession of Soviet Russia from the capitalistic world economy, the birth of new national states in eastern Europe, the dissolution of the former Turkish Empire with its aftermath of unsettled conditions in the Middle East, the awakening of nationalist movements in various parts of the world, resulting from such changes as these in the international situation—all these events proved that the world economy was not shaped as in the prewar days, when there existed an unquestioned predominance of advanced capitalist, or imperialist countries over the less developed areas of the world. Against such an overall background, Japan was building up her position as a developing imperialist power.

Here is a table consisting of a series of economic indexes for the years 1914-46 (see the following page), put together in order to help the reader grasp the trends in the Japanese economy in the period between the two wars.

By a careful study of this table, we learn that there were at least three economic crises during this period: the first just after the war, the second around 1927, and the third around 1930. At the time of the first crisis, the

total amount of foreign export, which had been 900 million dollars in 1919, showed a sudden drop in 1921 to 566 million. Likewise, the wholesale price index dropped from 167.8 to 126.7 during the same period. The drop in the wholesale prices of representative commodities was as follows:

Rice (1 <i>koku</i>)	from 45.99 <i>yen</i> (1919) to 30.83 <i>yen</i> (1921)
Coal (1 ton)	„ 33.29 „ („) „ 22.27 „ (1922)
Iron (1000 kg.)	„ 42.69 „ (1918) „ 14.64 „ (1921)

Leaving out the second crisis of around 1927, the third one, which occurred in Japan as a part of the world economic crisis, was far more violent in nature than the first one. The table shows that the total amount of foreign export, which had been 933 million dollars in 1929, plummeted to 362 million in 1932. Also the wholesale price index dropped from 110.6 in 1928 to 74.8 in 1931. In this crisis, the drop in the wholesale prices of representative commodities was:

Rice (1 <i>koku</i>)	from 30.77 <i>yen</i> (1928) to 18.37 <i>yen</i> (1931)
Coal (1 ton)	„ 22.63 „ („) „ 17.19 „ („)
Bar steel (100 kg.)	„ 10.67 „ („) „ 5.82 „ („)

Japan had already suspended the gold standard and adopted the so-called managed currency system during World War I. During an economic crisis or depression, therefore, the Bank of Japan was in a position to release a surplus amount of paper money to stimulate demand or to keep the investment in stocks at a higher level than otherwise. The consequence of this would be the stimulation of economic activities. Certainly, such a measure would have made the exchange rate for the *yen* unfavorable, but, insofar as the domestic economy was concerned, would have the temporary effect of eliminating the imbalance of supply and demand. As I have already mentioned, in almost every sector of the manufacturing industry there existed cartels or cartel-like organizations, which were engaged in monopolistic operations, such as output restriction, price agreements, etc. However, notwithstanding these factors—the results of an inflationary policy through issue of the Bank of Japan notes

and monopolistic operations on the part of the cartels—Japan had to undergo not only two, but three economic crises. In short, the world at large, including Japan, was caught in the grip of a so-called chronic economic crisis during those years. During this period, a number of enterprises had to go bankrupt and a multitude of workers to lose their jobs, even though, in individual big enterprises, or taking each sector of manufacturing as a whole, there was seen an expansion of production facilities and an increase in productive capacities. The inferior conditions of small and medium enterprises as well as overpopulation with its inevitable latent unemployment, which constituted the specific features of the Japanese economy, now came to assume a graver aspect in this advanced stage of capitalism, attained under the favorable conditions of the war years.

Agriculture as well as the peasant class was not in a happier condition either. Food shortages, or a sudden increase in the demand for food during the war, had led to an expansion of productive powers in agriculture in regions other than the belligerent countries in Europe. It is said that the agricultural problems that have risen in America have their origin in the excessive expansion of the productive powers of her agriculture during that period. Similarly, Japanese agriculture, too, suffered in the postwar period from overproduction and low prices, her difficulties being aggravated by the pressure of excessive food production on the world scale. The sufferings of the Japanese peasants in general, and of tenants in particular, were appalling and brought landlord-tenant relations to a critical point.

As the years went by after World War I, the basic contradiction in Japanese capitalism, that is, the contradiction of excessive productive forces, both physical and human, and the narrowness of the market, became more and more acute. On the surface of such an undercurrent, there developed, on the one hand, such phenomena as the centralization of production and capital, as well as the strengthening of the rule of big businesses, monopoly capital, or *zaibatsu*; and, on the other hand, the deterioration of the position of small businesses and impoverishment of the peasant and working classes.

TABLE 20
ECONOMIC INDEXES, 1914-46

Year	Trade (in million dollars)							Output		
	Export		Import		Yen exchange rate (1)	Wholesale price index (2)	Issue of Bank of Japan notes (3)	Coal (4)	Pig iron (5)	Ordinary steel (6)
	To foreign countries	To territories	From foreign countries	From territories						
1914	281	50	279	52	49.34	61.8	3.9	22.3		
15	336	51	247	68	48.95	62.5	4.3	20.5		
16	547	70	362	95	50.16	75.6	6.0	22.9		
17	779	105	498	114	50.67	95.1	8.3	26.4		
18	950	156	807	177	51.47	124.6	11.4	28.0		
19	990	216	1021	256	50.79	152.6	15.6	31.3		
20	913	184	1065	272	49.78	167.8	14.4	29.2		
21	566	158	723	211	48.15	129.6	15.5	26.2		
22	752	151	845	219	48.05	126.7	15.6	27.7		
23	675	150	897	274	48.94	128.9	17.0	28.9	10.3	126.2
24	730	157	959	292	42.10	133.6	16.6	30.1	58.5	373.2
25	902	191	981	290	40.93	130.5	16.3	31.5	85.8	471.0
26	914	220	1043	327	46.08	115.7	15.7	31.4	175.4	364.0
27	901	228	970	315	47.38	109.9	16.8	33.5	153.5	397.1
28	867	250	953	325	46.56	110.6	17.4	33.9	191.3	833.9
29	933	267	944	329	46.13	107.5	16.4	34.3	230.5	894.9
30	665	241	704	287	49.38	88.5	14.4	31.4	193.7	911.2
31	528	195	560	264	48.87	74.8	13.3	28.0	157.5	966.8
32	362	144	381	164	28.10	83.0	14.3	28.1	155.6	1527.1
33	414	179	479	143	25.23	95.1	15.4	32.5	243.5	1761.3
34	554	269	666	211	29.51	97.0	16.3	35.9	1619.0	3471.8
35	628	318	699	244	28.57	99.4	17.7	37.8	1948.7	3988.3
36	609	322	708	236	28.95	103.6	18.7	41.8	2022.5	4249.3
37	801	406	1077	296	28.81	125.8	23.1	45.3	2351.2	4663.4
38	614	509	742	339	28.50	132.7	27.5	48.9	2627.4	4612.8
39	733	609	742	340	25.98	146.6	36.8	51.1	3232.2	4960.4
40	715	545	796	285	23.44	164.1	47.8	56.3	3556.3	4024.3
41	511	508	669	275	23.44	175.8	59.8	56.5	6095.6	3811.2
42	350	496	437	278	—	191.2	71.5	53.5	4255.9	3794.7
43	334	338	481	177	—	204.6	101.7	55.5	—	—
44	266	...	489	...	—	231.9	177.5	52.9	—	—
45	91	...	224	...	—	350.3	554.4	29.9	982.4	526.5
46	103	...	306	...	—	1627.1	934.0	20.4	147.7	299.9

(1) value of 100 yen in dollars. (2) 1934-6=100. (3) in 100 millions of yen. (4) in millions of tons. (5), (6) in thousands of tons; corresponding figures for the period prior to 1922 are not available.

Manchuria seemed to offer abundant room for settlement. To the workers, doors to new jobs seemed to be open there, with promise of higher positions and wages than indigenous workers, and consequently with a higher living standard than that of the home country. The same thing could be said also about Japanese territories such as Korea, Formosa, the Kurile Islands, and South Saghalien—those territories which guaranteed Japan a stable and low-cost supply of both basic raw materials and necessities of life such as sugar, rice, soybeans, and sea food. Therefore, it was small wonder that, to a great majority of the Japanese people, the “Empire of Japan” appeared to be a thing worth defending and expanding. The efforts of hosts of officials, civil and military, and of the intellectuals to build and expand this empire both ideologically and factually were at once an outcome and a cause of such popular feeling.

In the meantime, the nationalist, anti-colonial movements of the Asian nations, already discussed above, had been gaining momentum on the international scene. Particularly, the forces of the Chinese revolution gathered around the Communist Party of China were a growing menace to Japanese imperialism. The colonial policies of Japan and other imperialist powers had been the main factor which had stimulated the rise and growth of the revolutionary movement in China, and the latter country had now become a dangerous foe of Japanese capitalism. It is a common rule that an appearance of an “external foe” makes a *Burgfriede* (“peace within the city wall,” or “cessation of inner strife”) easier to materialize. In Japan at that time, exactly such a situation was ripening to which this rule could be applied.

Against such an international background, Japanese capitalism was involved in a violent world economic crisis, unprecedented in the history of capitalism. “Poverty amidst overabundance,” a condition which had been regarded as inherent in a capitalist economy, came to be exposed in its naked form. For resolving this contradiction, however, neither the first nor the second alternative mentioned above had the possibility of becoming a reality. It was at this stage, that a group of young bureaucrats, at first members in the military but later on in the civil service who were called “reformist forces,” made their appearance. The ablest among the

younger generation of army officers, who had been sent to Europe as military observers during World War I, had an excellent chance of learning what was meant by modern warfare. They found that a modern war could be carried out only by mobilizing the total energies of a nation. Hence, they came to be convinced, that the military should, in order to prepare for a total war, assiduously study not only military affairs in a limited sense, but also political and economic problems. And the closer they came in touch with the then prevailing turbulent situation, domestic and international, the more keenly they felt the necessity of "reforming" Japanese society.

It would not be difficult for the reader to understand, from what has been demonstrated above, that the viewpoints of these "reformists" were anti-capitalistic, anti-democratic, and anti-communistic. For them communism was synonymous with the abolishment of the *tenno* system. Their anti-capitalism and anti-democratism meant both their opposition to America and Britain and to the parliamentarianism and the businessmen and politicians of the orthodox school in the country.

The forces representing such viewpoints saw a marked growth after the outbreak of the world economic crisis. The founding of Hitler's Nazi government in Germany in 1933, the 7th World Conference of the Comintern in 1934, the formation of economic blocs on a world-wide scale, the development of the revolutionary, anti-imperialist movement in China were all events conspired to fatten the ranks of the followers and supporters of the "reformist" movement. The leaders of the so-called "new" *zaibatsu* (*parvenu* big business combines), who had been for long years oppressed by, and who had been harboring an inferiority complex in regards to, the "old" *zaibatsu*, were the most conspicuous among them, but similar cases of conversion were witnessed also among the leaders of labor and socialist movements.

Through a series of intrigues, behind-the-scene maneuvers, and open outbreaks, some of which were successful, others unsuccessful, some violent, others non-violent, the real powers in military, diplomatic, political, and economic affairs were seized one by one by those who wanted Japan to march on the road of the third alternative. And the result was a

TABLE 21
CONSUMPTION OF STAPLE FOOD BY COAL MINERS AND THEIR
FAMILIES AND ITS EFFECT UPON COAL OUTPUT⁵

	Consumption of staple food per worker per day (grams)	Percentage of rice and barley in staple food
1935	1300	100
'36	1200	100
'37	1200	100
'38	1200	100
'39	1000	100
'40	1000	100
'41	700	100
'42	700	90
'43	700	80
'44	700	80
'45	700	60
'46	705	50

complete suppression of democracy followed by the rule of Japanese fascism on the one hand, and, on the other, a feverish preparation for war.

Thus Japan plunged, head over heels, into World War II. It is not always easy to answer the question of exactly when World War II broke out. As far as Japan was concerned, it might be said to have begun on September 18, 1931, the day when Japan launched the Manchurian Incident. But it was with the commencement of the war with America and Britain that Japan came to wage a total war in its genuine sense. This was started by the attack on Pearl Harbor by the Japanese navy on December 8, 1941, and was brought to a close by Japan's unconditional surrender on August 15, 1945.

The following table is, in this author's opinion, the best illustration of the economic deterioration and popular sufferings during this period:

⁵ "The United States Strategic Bombing Survey: The Effects of Strategic Bombing on Japanese War Economy" (Washington: U.S. Government Printing Office, Overall Economic Effects Division, 1946). Japanese translation: "Amerika Gasshukoku Senryaku Bakugeki Chosadan: Nihon Senso Keizai no Hokai, Senryaku Bakugeki no Nihon Keizai ni Oyoboseru Eikyo," tr. Masaki, Chifuyu (Tokyo: Nihon Hyoronsha, 1950), Appendix Table C-175.

Percentage of supplementary food supplied	Coal output per man per month (tons)	Consumption of staple food by adult members of workers' family, per man per day (grams)
100	29	955
100	28	900
100	23	900
100	24	900
100	23	800
100	21	800
100	17	325
100	16	325
80	19	325
60	12	325
40	8	290
30	4	325

CHAPTER IV

Changes After World War II

Democratization of Japan

During the whole period of the occupation, Japan remained under the control of the Allied Powers, particularly under that of the United States. Consequently, her postwar conditions were greatly influenced by American policy.

The goal of the occupation policy is clearly stated in a document entitled the "United States Initial Post-surrender Policy for Japan," dated September 6, 1945, and published on September 22, 1945. The first part defines America's ultimate objectives in Japan by declaring her intention to first insure that Japan would not again become a menace to the United States, and second, to arrange the ultimate establishment of a Japanese government capable of maintaining peace and shouldering responsibility, and which would also support the objectives of the United States as reflected in the ideals and principles set forth in the United Nations charter.

What were the measures or policies appropriate for achieving these objectives?

The ultimate goal of the policies of the Allied occupation was the democratization of Japan. This process might be broken down into two parts, one economic and the other non-economic. The outstanding features of the latter were as follows:

(1) The principle that sovereignty should rest with the people was to be upheld. Since, according to the Meiji constitution, it was the emperor who exercised sovereign power, major policies had been administered in his name. It had been possible to make decisions concerning the life, rights, duty, and property of the people without the latter's consent.

Though the appearance was maintained that these decisions were in accord with the provisions of the Meiji constitution on the basis of universal suffrage, that did not at all change the nature of things. The post-war status of the emperor was re-defined as being that of "symbol" of the state and the unity of the nation, while the national Diet became the highest organ of the state. Members of the Diet and local assemblies came to be elected by popular vote based on universal suffrage for both sexes.

(2) In connection with the above policy, measures were taken for encouraging the decentralization of authority. The whole prewar structure or mechanism consisting of the Ministry of Home Affairs (*Naimusho*), the police bureau (*Keiho-kyoku*), and the local police had been instrumental in suppressing popular movements for democracy. This structure was therefore abolished. The prefectural governors, who formerly had been appointed by the Home Minister, were replaced by those elected by popular vote. The local police were accordingly separated from the state police.

(3) The armed services were abolished. This insured that Japan would never again become a "menace" to world peace and that she would be deprived of the instruments for overseas invasion and suppression of her own people.

(4) The position of women, both in public and private life, became equal to that of men.

(5) The former state-controlled educational system was thoroughly democratized, and a co-educational system was introduced in public and private schools. The term of compulsory education was extended from six to nine years, and the part-time senior high school was established, thereby opening to the working youth, who had been hitherto barred from higher education, the doors to colleges and universities. The national scholarship system was fundamentally reorganized and its fund replenished, so that it helped a far greater number of students than in prewar days, by seeing them through school.

(6) Democratic freedoms formerly considered harmful to Japanese prewar capitalism came to be widely recognized.

These and other reforms, introduced by the government in compliance

with directives issued by the occupation authorities, were later incorporated in a new constitution, which was promulgated in November, 1946.

Together with the democratization of laws and institutions, measures were also taken for democratizing personnel, that is, there ensued the "purge" of undesirable persons from public office as well as from the business world.¹ Of about 820 organizations investigated some 180 were ordered to disband. Property owned by these disbanded groups was confiscated by the government, the leaders of the groups coming under the purge directives and being barred from holding public office in the future.

Another SCAP memorandum brought about the exclusion from public office of all those who had held offices responsible for the promotion of militarism and other policies of repression. However, the Japanese government prepared and enforced a program for the purge of these persons from public office pursuant to a law enacted on its own, though the power of screening rested ultimately with SCAP.²

Furthermore, the Japanese government went on to purge a great number of other persons who, had they been subjected to screening for appointment to public office, would properly have been excluded from such, in view of their records. Consequently, as of May, 1948, a total of 202,000 people had been declared subject to the purge directive. Of this number, fifty-four were war criminals, about 160 thousand were pro-

¹ The directives of the occupation authorities in regards to this matter are described in a document entitled the "Mission and Accomplishment of the Occupation in the Economic and Scientific Fields." From this document we learn that the Supreme Commander for the Allied Powers instructed the Japanese government on April 1, 1946, to expose and dissolve all organizations of an ultra-nationalistic or terrorist nature, and to take steps to ensure that they would not be organized again in the future.

² During the first period from its inception through the summer of 1946, about 1,100 persons were relieved of, or prohibited from, serving in important governmental positions. The next period starting from early 1947 saw the exclusion of militarists and ultra-nationalists from key positions in the prefectural and municipal governments; and some 7,000 persons were thus relieved of, or prohibited from, working in such positions. The third period, which began at the end of 1947, marked the purge of a number of people in the financial, industrial, and journalistic worlds, some 250 being expelled from business, and about 170 from journalistic activities.

fessional army and navy officers, about forty thousand were leaders of ultra-nationalistic or totalitarianistic organizations, and about two thousand were marked as having once been engaged in preparing for war or in the exploitation and plunder of occupied countries.³

Thus, it was the impact of allied authority that effected democratic reform in postwar Japan. We remember that a similar impact of outside influences had compelled Japan, at the close of the Tokugawa era, to open her doors and to make a start on the road to capitalism, albeit a sort of capitalism wherein the system was not accompanied by true democracy.

Purge of Monopolistic Enterprises

In Section 2, Part IV, of the previously mentioned "United States Initial Post-surrender Policy for Japan," it is stated that encouragement and favor should be given to the development of labor and industrial and agricultural organizations built upon democratic bases; and that policies permitting wide distribution of income and ownership of the means of production and trade should also be favored. Prompted by such lines of thought, therefore, measures for democratizing the Japanese economy were taken in three directions: (1) Dissolution of the *zaibatsu*, (2) decentralization of economic forces, and (3) prohibition of monopo-

³ Another source gives different figures for the "purges" from the business world: "... Measures were taken consecutively for democratizing the economic system and organizations in the country and, at the same time, many noted businessmen who had held key positions in them retired from public life. In this way, both the structure and personnel of the business world were entirely renovated. To begin with, fifty-six members of the *zaibatsu* families resigned, as soon as they were designated as 'undesirable,' from the directorship of their respective firms, along with 2,210 officers of *zaibatsu* concerns who resigned from 632 firms. The resignation of such large numbers of business leaders was carried out through the Directive on the Purge of Responsible Persons in Finance, Industry, and Commerce rather than through that on the dissolution of the *zaibatsu*. The purge of key businessmen, carried out under the SCAP memorandum dated January 4, 1946, affected the persons holding key positions in about 2,500 representative firms in the country." (*Sengo Keizaishi: Sokan-hen*, ed. the Economic Planning Board ["History of the Postwar Economy: A General Survey," Tokyo: Keizai Kikaku-cho, 1957], p. 30.)

lies. The dissolution of the *zaibatsu* and the decentralization of economic forces were meant to democratize the economic system as it existed just after the war, while the prohibition of monopoly aimed at the suppression of any future growth of monopolistic enterprises in Japan.

In a section entitled "Democratization of Trade and Industry," the "Mission and Accomplishment of the Occupation in the Economic and Scientific Fields" gives us the following account of the policies adopted by the occupation authorities:

1) Background and Mission: The Japanese economy before and during the war was dominated by the *Zaibatsu*—a few powerful families, wedded for mutual protection and advantage with influential elements of Japanese society—who controlled the major part of the industry, mining, finance and commerce of Japan, and in large part, livelihood of the people of Japan. Independent enterprises and free competition existed, but only in minor segment of economy. Characteristically, Japan was a land of private internal economic empires featured by international and domestic cartel arrangements; pyramids of operating and holding companies reaching their apexes in top family holding companies; monopolies of basic resources, key services and strategic equipment; and control over major banking and insurance institutions. It was these *Zaibatsu* who, in concert with the Japanese military, organized and participated in the war of imperialist aggression. In order to re-organize Japan on a peaceful basis, it was essential to depose the *Zaibatsu*, break their strangle hold on economic enterprises, and give the ordinary businessman a stake in a democratic nation. In an economy which had no real tradition or experience in the basic aspects of democratic capitalism, it was necessary to carry through a broad program, breaking down *Zaibatsu* control structures on the one hand while at the same time building legislative and ownership foundations upon which a competitive, private enterprise economy could be established.

2) Redistribution of *Zaibatsu* Corporate Ownership: In the first months of the Occupation, 57 members from 11 families were designated as *Zaibatsu*, their securities taken over for disposal, and their active participation in responsible industrial and commercial positions restricted. Since then, 35 percent of these designated persons assets, other than securities, have been liquidated through public sale and 40 percent of their liabilities discharged. Of the 166 million

shares of stocks transferred from the *Zaibatsu* and holding companies, 42 percent have been sold to employees, local residents, and the general public; 14 percent are in companies being liquidated, and 44 percent remain to be sold. In addition, 25 million rights which have accrued to such shares have also been sold. As the securities and other assets are liquidated, taxes and other liabilities are being paid off and their remainder is to be turned back to the former owners, those going to the *Zaibatsu* being paid in the form of non-negotiable government bonds.

3) Dissolution of Holding Companies: Aside from the *Zaibatsu* family groups the corporate instruments which held together vast economic combines in Japan were broken up. Eighty-three companies were designated holding companies, and are being progressively dissolved as such. Of these holding companies, 32 were scheduled for complete dissolution and liquidation, with 28 of them already having been dissolved, while the remainder are being permitted to retain their operating facilities but are being required to dispose of their holdings in other companies.

4) Dissolution of Monopolistic Trading Combines: The monopolistic trading companies constituted a special case. In July 1947, the Mitsui Trading Company and the Mitsubishi Trading Company, which accounted for 70 percent of Japan's power foreign trade, were ordered dissolved and their liquidation has since been approximately 95 percent completed. Some 240 new companies have succeeded to some of the business and employees of these two large trading companies.

5) The Restricted List: In order to prevent dissipation of assets until new stockholders have acquired the share formerly owned by the *Zaibatsu*, some 1203 companies in which the *Zaibatsu* held direct stock interest, were placed under careful surveillance and restriction. Approximately 400 of such companies have already completely severed their ownership connection with the *Zaibatsu* chains and have been removed from such surveillance. The remainder is rapidly approaching this stage.

6) Elimination of Excessive Concentrations: In the complex of monopolistic organization, certain operating companies in themselves had become excessive concentrations of economic power, stifling free business and retarding eco-

conomic development. In 1947, the law for the Elimination of Excessive Concentrations of Economic Power was passed and early in 1948, 325 of the largest non-financial companies of Japan were designated as possible excessive concentrations. After examination of the relevant data, 297 of these companies were removed from designation as not being excessive, 11 were ordered to be divided into independent companies, six were ordered to divest themselves of certain properties or take other action, and 11 remain subject to some degree of reorganization.

7) Central Association: Before the war, competition and entry into business in Japan were controlled in large measure by domestic cartel arrangements. During the war period, various governmental functions such as allocation of critical materials and converting of industries to war productions were also turned over to those organizations and they became known as Control Associations which controlled practically all private business transactions were ordered dissolved by SCAP and are in the process of liquidation and/or reorganization. In addition, approximately 25,000 organizations with similar functions, but operating on a local level, have been liquidated or are being reorganized in accordance with the provisions of the new cooperative laws and the new Trade Association Law.

8) Business Reorganization: As a result of extensive war losses, most of Japan's largest companies faced bankruptcy at the end of the war. To avoid the shock to the economic system which this would have entailed several business enterprise laws were enacted in 1946 requiring a special type of financial reorganization without bankruptcy. Some 4,900 companies have submitted to this reorganization procedure. Of these so-called "Special Accounting" companies, 90 percent have had their reorganization plans approved and are in the process of execution thereof. Such plans call for the issuance by those companies of nearly 30 billion yen of new capital stock and it is anticipated that the other 10 percent will be required to expand another 20 billion yen in new stock.

9) Permanent Legislation: Two basic permanent laws, the Anti-Monopoly Law of 1947 and the Trade Association Law of 1948, were passed to eliminate and to ensure against recreation of monopolistic controls, and a Fair Trade Commission was established to administer both laws. In conformity with the spirit and letter of this antitrust legislation, the Diet repealed 49 old laws, en-

acted 17 new laws and modified nine others in order to abrogate specific private controls, provide a basis for freedom of entry into particular industrial and distributive fields and otherwise liberalize the economy. The Commercial Code is under revision and bankruptcy legislation is being prepared at the same ends. The Fair Trade Commission has become increasingly active in the administration and enforcement of the antimonopoly legislation. During the first 24 months of its operation, the FTC investigated 236 suspected violations, prepared 72 industry studies, issued 17 hearing-notices and received stock disposal plans from 3,651 companies covering approximately 70 million shares of stock.⁴

Let us now try to grasp the specific meanings in all these measures enumerated here, in the broad context of the developmental process of the Japanese economy.

(1) Realization of a democratic capitalist system.

Insofar as these measures could be interpreted as having been aimed at an introduction of a capitalistic system in which the operation of free and unrestricted competition would be permitted between various enterprises, their ultimate objective might be said to have been the liquidation of the dual structure which was one of the fundamental features of Japanese capitalism.

(2) Prevention of rearmament.

The Interim Report of the Pauley Reparations Commission published on December 7, 1945, stated that the Japanese economy, characterized in the past by extreme military expansion, was possessed with over-sufficient capacities in terms of the needs of a peacetime economy, in spite of having suffered much damage from the war; and that the disarmament of Japan could therefore be completed by the transfer of these surplus facilities to the countries invaded by Japan. This would then contribute to the rehabilitation of those invaded nations. But this reparation in kind, that is, the transference of industrial plants to the invaded nations was, after all, not carried out, though a list of installations to be

⁴ "Mission and Accomplishment of the Occupation in the Economic and Scientific Fields" (Tokyo: SCAP, GHQ, 1949), pp. 20-2.

removed from Japan was made. This list included, for example, 50 per cent of her capacity for machine-tool manufacture, and all of her aircraft and light metal plants. The maximum capacity for Japan's steel production was prescribed by the Interim Report as 2.5 million tons a year.⁵

(3) Curtailment of capacity for international competition.

The menace of Japan had been, in the last analysis, the latter's economic competitive power, which was supported by her military strength as well as her overseas expansion based on such a competitive power, the imperialistic, aggressive wars waged by Japan having been the eventual consequence of this power. Curtailment of this power was, therefore, of necessity the central problem of post-surrender occupation policy.

Emancipation of Workers and Peasants

For the democratization of a capitalist society, relations regarding the working class must also be democratized. The objectives set by the occupation authorities in reference to this problem are listed in "The Mission and Achievements of the Occupation in Japan" in the following way:

In the field of labor, the Occupation in carrying out its mission has primarily been concerned with: 1) creation of conditions under which a free and democratic labor movement could develop; 2) encouragement of sound collective bargaining and labor relations; 3) creation or extension of democratic labor legislation and administrative agencies; 4) education of workers, employers and government officials in proper practices inherent to democratic labor movement and administration, and 5) effective use of Japan's manpower for purposes of economic rehabilitation.⁶

In this way, by the end of the third year of the occupation, no less than ten basic laws on labor relations were enacted in Japan, all of which were in conformity with international standards. These were:

⁵ Today it has grown to almost twenty times this amount.

⁶ *Ibid.*, pp. 22-3.

- a) The organic Labor Ministry Law by which a Labor Ministry for the first time in Japan's history was established in September 1947, to administer labor laws through five operating bureaus. These, in turn, functioned through 46 prefectural and some hundreds of local administrative units, directly responsible to the central government in cause of labor standards and employment security.
- b) The Trade Union Law is administrated through the Labor Policy Bureau and some 300 local labor administration offices which also have labor education as a major function.
- c) The Labor Standards Law of 1947 which provides comprehensive labor standards including the protection from exploitation of women and minors, payment for overtime, weekly rest periods, safe working conditions, etc. is enforced by the Labor Standards Bureau and the Women's and Minors' Bureau through prefectural labor standards office and 336 local inspection offices. During the first six months of 1949 some 35,000 monthly inspections were made to enforce the provisions.
- d) The Workmen's Compensation Insurance Law provides monetary benefits in the case of industrial accident or occupational diseases. By the middle of June more than 235,000 employers with 6½ million workers were covered and benefits paid to 46,000 beneficiaries during the month of June 1949 amounted to yen 246,451,000.
- e) The Employment Security Law provides for a system of public employment exchanges, vocational guidance and training and regulates hiring practices. This system is administrated through the Employment Security Bureau and by 415 local offices. It handles monthly over 300,000 and 400,000 applications for jobs and places between 50,000 and 60,000 workers in regular jobs and around two million in temporary and casual openings. The Bureau also enforces the Unemployment Compensation Insurance Law by collecting unemployment insurance premiums from some 100,000 establishments employing approximately six million workers. In June 1949, it paid unemployment compensation on an average to 121,000 claimants weekly.
- f) The Labor Relations Adjustments Law is generally outside the scope of the

Labor Ministry. Its administration is handled under a tripartite (employer, labor, public representatives) system of labor committees, composed of a central committee, 46 prefectural committees, a central seamen's committee and local port committees. These committees, which are autonomous except for their quasi-judicial functions, are charged with protection of labor and employer rights and with conciliation, mediation and arbitration of labor disputes. Government workers have special arbitration committees.⁷

Provided that these laws and institutions had been administered with their intrinsic spirit faithfully upheld, in what way would the conditions of the Japanese workers have changed? Of course, the dual structure in the wage system and in working conditions would have disappeared. And this would have resulted in an overall democratization of the Japanese capitalist system, reinforced by the democratization of enterprises.

As it was, the Supreme Commander for the Allied Powers, General MacArthur, issued on October 4, 1945, a directive to the Japanese government ordering it to guarantee civil liberty, and to abolish at once all laws obstructing or restricting the activities of labor organizations and collective bargaining; also to free immediately all political prisoners. This was followed by another on October 11, instructing the Prime Minister to encourage the labor union movement. Accordingly, a Labor Union Law was enacted on December 21, and under the inspiration and protection of such measures as these, the number of labor unions showed a tremendous increase:

TABLE 22
INCREASE OF LABOR UNIONS

	No. of unions	No. of union members
October 1945	5	5,300
End of 1945	509	380,600
" " 1946	17,200	4,925,000
Middle of 1949	36,000	6,724,000 ⁸

⁷ *Ibid.*, pp. 24-5.

⁸ This figure represented about 38 per cent of the total working population, excepting agricultural workers.

Thus, the Japanese working class, which had for the most part remained an unorganized mass before and during the war, now emerged on the scene as a huge organized force. Today, there must certainly be persons who, though willing to admit that the democratization on the part of capital was accomplished at the instigation of the occupation authorities, would feel reluctant to accept the interpretation that the organization of the working class was made possible under the "encouragement and protection" of General MacArthur's headquarters.

Apart from capital and labor, there remain the village and peasants as one of the basic components of the Japanese economy. Consequently, the third major item in the democratization program was the Land Reform. Concerning this reform, I would like to quote from the memoirs of Yoshida Shigeru, Premier of Japan for many years after the war:

As for the Allied Powers, their leaders generally held the opinion that the feudalistic land system in Japan had distorted the shape of the Japanese economy and had provided a firm basis for her militarism. They believed that the landlord class, together with the military clique, bureaucracy, and *zaibatsu*, formed a principal obstacle to Japan's democratization, an obstacle which should have been eliminated by all the means in their power. The hordes of peasants, who made up the source of supply for the low-waged labor force as well as the recruits for the Japanese Army, were, in their opinion, in 'a state of slavery', so that their emancipation and the improvement of their living standard were allegedly made, since after the surrender or even before it, one of the principal programs of the occupation policy in the pursuit of the goal of democratization and demilitarization of Japan. . . .

On the Japanese side . . . the various control measures, introduced during the war for the purpose of securing food supplies, had of necessity given rise to an atmosphere of catering to the cultivator's needs in preference to the landlord's, with the result that what was called 'parasitic landownership' had been submitted to varied and extensive restrictions. . . .

On July 26, 1946, an "Outline for the Enforcement of Land Reform" was passed at a Cabinet meeting. Its main features were: (a) Complete expropriation of the farm land owned by the so-called 'absentee' landlords, that is, those who did not live in the locality of the property concerned and had no possibility of cultivating it except by leasing it to tenants; (b) Prohibition of tenant land

exceeding the average area of one *chobu* in the regions except Hokkaido, and four *chobu* on the island of Hokkaido (the maximum area for each prefecture to be determined by the National Farmland Committee); and (c) Limitation of the sum total of the land owned and/or tenanted by one cultivator to three *chobu* (12 *chobu* in Hokkaido). In addition, regulations were published providing for compulsory purchase by the government and sale to the tenant of the farm land exceeding the above limits, as well as for payment to the landlord which was to be made by government bonds.

A government report says that, up to July 1950, about two million *chobu* of farm land were liberated by the Land Reform Law, with about 1.5 million landlords being expropriated and about four million peasant households acquiring new land. In addition, about 450 *chobu* of pasture land and 1,320 *chobu* of uncultivated land were also disposed of. As a result, the percentage of the tenant land, which had been previously about 46 per cent of the total farm land, was reduced to well under 10 per cent. The tenant farmers have all but disappeared, and an overwhelming majority of the agriculturalists have become owner-cultivators. The old-time big landlords as well as the absentee landlords have vanished from Japan.⁹

And now, let us listen to Yoshida's own evaluation on the Land Reform:

"At that time conditions in our rural areas, in contrast with the tumultuous situation in urban areas, were very peaceful¹⁰ and the rural population seemed to rather resent the red-flag-carrying movements in metropolitan cities. It would be difficult to tell what grave consequences might have been brought about, if rural inhabitants had raised a clamor together with the urban population. . . . Nobody would deny the fact that the Land Reform has greatly improved the general living standard of our agriculturalists. And one must fully acknowledge that such an improvement and stabilization of our rural life made an essential contribution to the easing and stabilization of social conditions, embroiled as they were in such a state of unrest and confusion following the

⁹ Yoshida, Shigeru. *Kaiso Junen* ("Reminiscences of a Decade," Tokyo: Shinchosha, 1957), II, 194-5.

¹⁰ Mr. Yoshida's memoirs are inaccurate on this point. Before the Land Reform, conditions in the rural areas were also tumultuous, perhaps more so than in urban areas. Only after the Land Reform was effected did peaceful conditions begin to prevail.

end of the war. At the same time, one must not forget the sacrifices paid at that time by the former landlords. Just think of the unspeakable state of affairs into which the whole nation would have been thrown if those landlords had taken recourse to radical social and political movements in order to display their complaints and dissatisfaction, and thus incited unrest and disorder in our villages! Hence, my deepest sense of gratitude and respect to the former landlords. . . .

According to Yoshida, General MacArthur, too, declared in a special message issued at the time of the enactment of the Land Reform Law that no surer foundation [than this law] would be found on which to construct a sound and moderate democracy, and no more trustworthy defence against the pressure of extreme ideologies."¹¹

Paraphrased in non-rhetorical style, these pronouncements by Yoshida and General MacArthur would mean nothing else but this: that what was intended by the Land Reform was the rescue of Japanese capitalism by securing the neutrality, if not the allegiance, of the peasant class at the sacrifice of the landlords. Moreover, it should be noted that the Reform, in diminishing the importance of the villages as the source of supply for soldiers, was perfectly in line with the purpose of the economic demilitarization of Japan.

The report "The Mission and Accomplishment of the Occupation in the Natural Resources Field" tells us very little about the Land Reform but gives the following account of the agricultural cooperatives:

(a) The minute size of the average Japanese farm management unit requires that farmers pool their efforts and resources through cooperation. The prewar Japanese government took advantage of this situation to construct a monopolistic hierarchy of agricultural associations through which the government controlled almost all aspects of farm life. Membership was compulsory for all farmers.

(b) SCAP policy has required dissolution of this basically militaristic set-up and its replacement by a genuine agricultural cooperative movement free from domination by non-agrarian interests and dedicated to the economic and cultural advancement of the farmer. The Agricultural Cooperative Association Law,

¹¹ *Ibid.*, II, 196-7.

which became effective on 15 December 1947, provided for the organization of democratic agricultural cooperatives based internationally recognized cooperative principles. By 30 June 1949 a total of 31,329 local and individual cooperatives had been organized. These had federated into a total of 993 federations of agricultural cooperatives by the same date. Volume of business records for the year 1948 showed that cooperatives handled a major portion of farmer purchases, sales, financial deposits, and loans. Membership in these cooperatives is voluntary. Each member has one vote. The primary purpose of the cooperatives is maximum service to participating members rather than payment of dividends on invested capital. Results of officer elections for these organizations in March through May 1949 show that over 80 per cent of the present officers have never been directors or auditors in the former agricultural associations. This indicates a substantial change of leadership in rural communities.

(c) Problems remaining include improving the operating efficiency and placing the new organizations on a sound financial basis, building membership loyalty, retaining the present freedom from political control, and strengthening democratic management.¹²

In the preceding two sections of this chapter, we have become acquainted with various aspects of the democratization of the Japanese economy, the promotion of which was one of the occupation policies. Now we shall attempt to evaluate these policies from the viewpoint of Japanese economic history.

Ideals And Realities of the Democratization

The course of Japan's economic development as envisioned by Keynesian economists who were working with SCAP might have been as follows: As the result of a series of such measures as the dissolution of the *zaibatsu*, decentralization, and demonopolization, the non-agricultural sectors of Japanese capitalism would come to be composed of middle-sized enterprises, thereby liquidating the dual structure of the economy as far as the enterprises were concerned and allowing complete freedom

¹² "Mission and Accomplishment of the Occupation in the Resources Field" (Tokyo: SCAP, GHQ, 1948), pp. 140-1.

for economic competition. This would mean that an average profit rate for the enterprises, as advocated by the textbook of economics, would be brought to its full realization. At the same time, the labor union movement, set free by the "emancipation" policy, would eliminate the dual structure in the wage system and in labor conditions on the one hand, and, on the other, would change the relative proportions of profits and wages in favor of labor. Thus, a condition in which high wages and low profits prevailed would eventually come about.

On the other hand, they expected that the Land Reform would alter the structure of the Japanese village so that it would be made up of owner-cultivators alone. The rent, which had been hitherto exploited by the landlord, would be shifted to their income. There would remain no agriculturists other than the small peasants who work their own farm land with their own family labor and means of production. Thus, the income of the peasants would also increase.

As a consequence, both the Japanese worker and peasant would come to possess a large propensity to consume; that is, they would spend most of their income for consumption, leaving only a small margin for saving. For enterprises, too, provided with only a small margin for profit, few funds would be available for expansion of their facilities. The same condition would apply also in the case of a peasant's economy. Consequently, even if one had scraped together the total savings of various classes and social groups for investment for the sake of expansion of production, the amount thus collected would be insignificant. In short, either in the case of the individual or in that of the nation as a whole, Japan's propensity for saving would remain very small.

In this way, Japanese capitalism, composed as foreseen along the lines of the Keynesian blueprint, of middle-sized enterprises, workers, and peasants and functioning on the principle of "check and balance," would provide an economic basis for constructing a democratic, peace-loving, and cultured state in compliance with the spirit of the new constitution. With her ever expanding domestic market and reduced rate of economic growth, Japan would become less dependent on foreign markets, and consequently on militarism and armaments, than in prewar days.

Such a future for Japan might be said to be a truthful embodiment of the "spirit" of the initial occupation policy. But viewed from the actual conditions of the Japanese economy as well as the limited scale of the reforms put into force by the occupation authorities, the line of thought entertained by those Keynesian economists was unrealistic. As far as the farm land was concerned, the Land Reform had almost completely eradicated the parasitic landlord system, and in that sense its significance must be highly evaluated. However, it was far short of changing the Japanese village into a homogeneous community made up of small-sized peasant households.¹³

The "emancipation" of the working class was certainly worthy of its name insofar as its legal, political, and social implication were concerned. Judging from its economic consequences, however, those who were able to improve their conditions through negotiations and struggles with management were restricted to the workers of the big enterprises alone. This was because the conditions in the non-agricultural sectors, which represented an overwhelming part of Japan's productive forces, had not undergone any essential changes under the occupation. It is true that a considerable number of key businessmen were forced to retire by the purge, which measure proved, however, to be far short of being a mortal blow to Japanese capitalism. The dismantling of the two big trading houses, Mitsui and Mitsubishi, both of which were broken up into about 240 small-scale firms, undoubtedly involved a sizable change in the circulation process of commodities, but should not be taken as a really telling blow to the production process, or the basis of Japanese capitalism. Although the big enterprises engaged in finances, mining, manufacturing, public utilities, and transportation were also subjected to various democratization measures, these were, so to speak, restricted to their accounting system, which meant nothing else but a replacement of a

¹³ The U.S. authorities have stressed the significance of the Japanese Land Reform as a commendable example for underdeveloped countries. "On September 4, 1951, at the opening session of the Japanese peace conference at San Francisco, I happened to earn from President Truman an unlooked for compliment on our Land Reform. He paid glowing tribute to our achievements and emphasized its importance as a remarkable milestone in Japan's democratization and a valuable precedent for all Asia." (Yoshida, *op. cit.*, II, 197-8.)

large, complex business with several fairly large new firms; in other words, they had the effect of making those enterprises more rationalized from the viewpoint of capitalism. It was a sheer utopian dream to consider turning all Japanese enterprises into middle-sized ones. Moreover, because the predominance of small and dwarf-sized enterprises continued to exist, or even be aggravated during the postwar period of economic confusion, there actually occurred no fundamental change in the dual structure of the business world, with the consequence that the dual system in wage levels and working conditions, too, was left untouched.

There were indeed only two effective ways for a substantial democratization of the Japanese economy. One was a system of simple non-capitalistic commodity economy; but this was unworkable even at such an early stage as the Meiji Restoration.

The other road to democratization was that of socialization. There are various patterns of the socialization of an economy, but, in the last analysis, it means to submit large enterprises or industrial plants to an effective social control. In other words, it means that large enterprises will not serve the interests of a minority of the society, but the public interest. Seen from the level achieved by modern science and technology, as well as the scale of social production in the present time, none but socialization of this kind should properly be called the road to the democratization of an economy. The occupation authorities, however, chose a road to democratization which stood in contrast to this—a road to free competition between free enterprises.

As an instrument for enforcing the Anti-Monopoly Law, which was promulgated as a major economic policy of the occupation, there was established a Fair Trade Commission. If such legislation and its administrative machinery had been operated in accordance with its original intention, a growth of monopoly capital or an occurrence of monopolistic activity would thenceforth have been definitely put under check, even though it would have been impossible to eradicate the already existing stratified structure of the Japanese economy. However, in order to bring about such a state of affairs, it would have been necessary for a

majority of the Japanese people to have staged a widespread anti-monopoly movement, just as the American people did decades ago, and to have forced their will upon the politicians. In Japan under the occupation there were few signs of such a movement, the influences exercised by the big businesses still being too strong. As it is, the Anti-Monopoly Law as well as the Fair Trade Commission have since virtually gone into hibernation.

In this way, under cover of the attractive catch phrase of "economic democratization," the law of capitalist economy, or the law of the survival of the fittest has continued to work and prevail.

The Changed World Situation and the San Francisco Treaty

While the democratization of the Japanese nation was getting under way, fundamental changes took place in the world situation.

(1) The so-called cold war had intensified. The United States came to determine and conduct her domestic, diplomatic, and military policies based on the needs of the cold war.

(2) An Iron Curtain was drawn across the center of Europe, soon to be followed by the establishment of a communist regime in China.

(3) An upsurge of nationalist movements occurred in the underdeveloped regions of the world, which gave birth to a series of new independent countries. Although not necessarily adopting socialism, some among them, at least as an expression of their aspiration, professed themselves to be socialist states. Most of these countries tended to choose the so-called mixed economy, or an economic system more or less characterized by state control and planning, rather than the capitalistic free enterprise system. In any case, theirs are not systems wherein an unrestricted freedom of capitalistic enterprises is permitted, not to mention the free entrance and action of foreign capital or commodities.

These three factors did not appear independently of one another, but worked together, abetted by several other factors, to bring about fundamental changes in the world situation, causing American international policy to undergo a complete revision. As has been pointed out above,

the "initial policies" of the occupation authorities were to prevent Japan from becoming a menace to world peace, but now that objective had to be modified accordingly. Japan had now to be converted into a new asset in the strengthening of its ties with the United States.

These changes may be summarized in the following three points:

(1) Rearmament of Japan

Taking advantage of the outbreak of the Korean War, this was begun under the pretext of establishing a police reserve force, which was designated by American journalists as an "embryo army." It appears that Japanese leaders, who believed that a premature rearmament would be harmful to the recovery of the Japanese economy, were rather reluctant to comply with General MacArthur's demand for rearmament.¹⁴

(2) Maintenance of U.S. military bases on the Japanese islands.

(3) Strengthening of Japanese capitalism.

The previously cited 'Economic History of Postwar Japan' states that:

"The change in the administration program of U.S. occupation authorities came to be revealed even more clearly in the early months of 1948. This was regarded as the result of the deadlock with which the negotiations on the Japanese peace treaty was faced at the end of 1947.

General MacArthur's "New Year message," published on January 1, 1948, clearly pointed to a recovery of the Japanese economy through capitalism, and Secretary of the Army Royall stated in his speech at San Francisco on January 6 that the destruction of the military industry would adversely affect peacetime economic development, and that an excessive decentralization of industries would retard Japan's economic recovery and prolong the period of American assistance. He also stressed the necessity of using competent persons in the operation of enterprises. The new occupation program was then presented in a concrete form by Major General MacCoy's statement at a session of the Far Eastern Commission on January 21, 1948, in which it was announced that the U.S. government would make a specific appropriation for supplying Japan with absolutely necessary goods in order to assist a peaceful expansion of

¹⁴ See Yoshida, *op. cit.*, II, iii "My Views on Rearmament," 160-61.

Japan's production by furnishing raw materials, machine parts, and other necessary materials."¹⁵

Further, Secretary Royall went on to say that a greater part of these new circumstances had appeared after the adoption of the initial policies, and stressed at the same time the importance of the role to be played by Japan as a deterrent to the threat of a totalitarian war, which could commence in the Far East.

The change in American policy found definite expression in the Japanese Peace Treaty and the U.S.-Japan Security Pact concluded on September 9, 1951, at San Francisco. Reinforced later by the U.S.-Japan Mutual Security Agreement signed on March 8, 1954, these treaties laid the groundwork for the state of affairs, which is now called by the Japanese people the "San Francisco regime." Judging from the results of successive general elections in the past, this regime has been thus far supported by approximately two-thirds, and opposed by one-third of the Japanese people. The majority of the industrial workers, who form one-half of the working population of Japan are included in this one-third.

The Japanese people, therefore, now began to advance on the new road indicated by the articles of the Peace Treaty.

¹⁵ *Sengo Keizaishi: Soka-hen* ("History of the Postwar Economy: A General Survey"), *op. cit.*, p. 111.

CHAPTER V

Postwar Japanese Economy

Disintegration and Impoverishment

At the time of Japan's surrender, the total number of men mobilized in the army, navy, and air force was about seven million. Since the total population at that time was seventy million, one out of ten persons was in military service. Eliminating the children, women, and old people, the percentage of persons in the prime of their life who had been turned into soldiers must have been incredibly high.

Besides, it was necessary to supply these soldiers with warships, airplanes, tanks, guns, munitions, and gasoline, as well as uniforms and

TABLE 23
PRODUCTION AND MILITARY EXPENDITURE

	<i>Comparison of U.S. and Japanese Gross National Product</i>		<i>Percentages of Military Expenditure against the GNP</i>	
	Japan (1)	U.S.A. (2)	Japan (3)	U.S.A.
1930	57	89		
36	84	86		
40	100	100	17.0%	2.6%
41	101	118	23.1	11.2
42	102	136	30.5	33.5
43	113	158	42.1	45.0
44	124	165	50.9	46.0
Note: (1) 1940=100 (2) 1929=100			(3) Including private investment in military industry.	

food. It may easily be guessed how heavily the whole business of war taxed Japan's economic resources. The "Effects of Strategic Bombing on Japanese War Economy" previously quoted gives us the above data.

To understand what these percentages exactly mean, it is necessary to compare the actual figures of U.S. and Japanese production. For example, the total output of coal in 1944 in Japan was less than 43 million tons, while it was 560 million in the United States. The peak of the Japanese steel production of 5.6 million tons was reached in 1943, but the American output in the same year was well over 88 million.

Those seven million troops of the Japanese army were by no means always adequately supplied. A considerable number of them were without uniforms, shoes, rifles, or bayonets. There were also airplanes and warships that were immobilized because of lack of fuel. In short, the Japanese economy was reduced, even after diverting 50 per cent of her total national production to war purposes, to a condition in which it could not effectively utilize the mobilized troops as combat forces. This state of complete disintegration is most eloquently illustrated by the indexes in the following table. Especially noteworthy are the grim figures for July, August, and September of 1945.

TABLE 24
PRODUCTION INDEXES FOR MINING AND INDUSTRY
APRIL 1945—MARCH 1946¹

	Manufac- turing	Mining	All in- dustries	Consumers' goods	Producers' goods
1945:					
April	21.7	98.2	24.7	14.5	52.0
May	21.1	95.6	24.1	13.7	53.0
June	15.6	86.9	18.4	11.4	42.6
July	10.8	61.7	12.8	5.6	27.8
August	7.5	36.3	8.7	23.1	12.9
September	8.3	20.9	8.8	24.4	7.6
October	12.6	16.5	12.8	29.1	10.5
November	12.8	16.7	13.0	29.7	11.0
December	12.1	19.8	12.4	14.7	12.5

¹ *Sengo Keizaishi: Soka-hen* ("History of the Postwar Economy: A General Survey"), *op. cit.*, p. 37.

1946:

January	12.9	24.9	13.4	23.4	13.7
February	15.1	27.6	15.6	23.2	15.2
March	18.2	33.8	18.8	25.1	21.5

Whereas the minimum quantity of coal in demand was 1.8 million tons a month, the actual production was 1.7 million in August, 0.9 million in September, and 0.54 million in October 1945.

This drop in output was caused by the fact that the Korean and Chinese workers and the war prisoners, who made up 40 per cent of the labor force in coal mining during the war, left as soon as it came to an end, as well as by a number of disturbances which broke out at the time of their departure. Consequently, for a few months just after the end of the war, Japan had to rely on the reserve of 3.9 million tons stockpiled by the army and remaining at various coal yards. This shortage in the coal supply threatened the nation with an imminent stoppage of iron production, nation-wide paralysis of the railway system, and suspension of the supply of municipal gas.²

Similar signs of deterioration were seen in every phase of economic life. As early as February 1946, the delay or suspension of rice rations began in Hokkaido, Tokyo, and in Kanagawa. The per capita annual ration of clothing, which had been about 11.2 lb. in 1936, was reduced to 1.3 lb. in 1944, and to 1.2 lb. in 1945. The supply of daily necessities had diminished as shown in Table 25.

One must keep in mind that the above figures show merely per capita averages, and not the actual rations, which naturally varied from place to place, and from household to household. According to the statistics prepared by the Price Control Board (*Bukka-cho*), the average living cost of a worker's family in June 1946, in Tokyo was about 1,700 *yen*, of which 82.3 per cent was spent for food and no less than 49.3 per cent for rice or other kinds of staple foods. Furthermore, 58 per cent of the staple foods were bought at the black market. Whereas the standard daily caloric intake for a Japanese was designated at 2,150 calories and the standard protein intake at 75 grams, the actual nutrition absorbed by an average adult

² *Ibid.*, p. 40.

was, according to the research conducted by the Ministry of Welfare during 1946, as shown in Table 26.

TABLE 25
DIMINUTION OF DAILY NECESSITIES³

Name of article	Unit	1934-6	1946
Vegetables	grams/day per capita	203	151
Salt	"	31.3	18.0
Miso (soybean paste)	"	28.4	14.4
Shoyu (soy sauce)	"	37.9	19.7
Sugar	"	31.6	1.4
Municipal gas	sq. m./year per capita	9.3	2.4
Charcoal	kg./year per capita	32.6	20.2
Leather shoes	pairs/year/1000 persons	56.4	27.0
Ceramics	kg./year per capita	6.2	0.8
Electric bulbs	year per capita	1.4	0.3
Soap	kg./year per capita	1.7	0.2
Writing & drawing paper	lb./year/1000 persons	892.0	16.3
Pencils	year per capita	6.1	3.3

TABLE 26
ADULT NUTRITION⁴

	Calories	Percentage of rationed food	Protein (grams)	Percentage of rationed food
Worker in town	1,600	60	60	50
Coal miner	1,800	80	60	56

As for employment, the "History of the Postwar Economy" states: . . . It was estimated that the number of the unemployed, made up of those who were demobilized after the war, those who were repatriated from overseas, those who had to be transferred from war to peacetime industries, and those who sought new jobs, their homes having been destroyed by bombing, totaled about 13 million. Excluding from this number those who could be re-employed by their former employers as well as those who could take the place of

³ *Ibid.*, p. 75.

⁴ *Ibid.*, p. 73.

women workers, it was assumed that about 6 million were in need of unemployment relief. . . . However, the special national registration conducted on December 1, 1945, revealed that the number of the jobless was about 3.19 million. This unexpected result was partly due to the fact that a considerable number of the unemployed did not dare to report the truth, because they were frightened by the rumor that the registration would be used as a basis for drafting coal miners, and to the fact that the people who were engaged in black-marketing reported that they were not jobless. . . . Also the result of the census conducted in April, 1946, showed that only 1.59 million were totally unemployed, indicating that the state of unemployment was not so serious as previously thought. On the other hand, among the number who reported themselves as being employed, those who worked less than one week in a month amounted to 1.96 million, and those who worked more than seven but less than twenty days a month to 4.32 million. Further, it was found, through research conducted by the Ministry of Welfare in the autumn of 1946, that out of the 400 thousand unemployed persons questioned no less than 330 thousand answered that they wanted to be hired. . . . Such data proved the existence of a considerable degree of latent unemployment, which resulted from the defects in economic control. Under conditions of aggravated inflation, a great number of people without regular jobs . . . made a living by black-marketing, sometimes earning more than those who were normally employed. . . . Such a situation as this tended to create the undesirable conditions in which a shortage of labor was acute in the quarters where it was actually needed, while an abundant labor force was supplied to those quarters where it was unnecessary—a state of affairs in which people preferred easy jobs and bargaining in goods to employment in decent but difficult jobs. The statistics of employment agencies in 1946 showed that, while there were registered vacancies for 3.01 million positions, there were only 2.23 million registered applicants, and that only 1.28 million were hired through these agencies.⁵

Finally, the following fact is typical of the depth to which the Japanese economy had sunk just after the war. During the period, January 4–20, 1947, only two passenger trains were running daily on each of the two major trunk lines of Tokaido and Sanyo, and only one train on each of

⁵ *Ibid.*, p. 870.

the other lines of the National Railways, none of which was an express. Every adult Japanese remembers those "hellboxes on rails"!

Resuscitation of the Japanese Economy

Regarding ways to rescue the Japanese economy from such a state of disintegration and impoverishment, there were several possible solutions. Of these the first method was one of a planned economy, which would have consisted of the following measures:

(1) Nullification of credits in money. If war expenditures were met by direct taxation on the national income, that is, without recourse to the issue of government bonds or national loans, in no circumstances would there arise an accumulation of credits in money in private hands. The defrayment of war expenses would, in that case, be made year by year by cash account, without leaving debtor's or creditor's accounts behind. Of course, as the burden of war expenses grew greater and greater, the income tax would become heavier and heavier, thereby lowering the standard of living and making economic expansion more and more difficult. In a more advanced stage, expansion would be brought to a standstill or, even worse, production would begin to dwindle as a larger and larger part of the fund needed for the depreciation reserve (the fund used for renewing worn-out productive factors) would be drained off by taxation. As has been proved by the statistics quoted in the preceding section, it was through such a process that the state of the economy rendered Japan incapable of continuing the war. In reality, the defrayment of war expenses did not follow the formula just described. The floating of a tremendous amount of government loans resulted in an accumulation of a huge sum of money credits in private hands consisting of banks, enterprises, and individuals. Were these money credits released as purchasing power into the Japanese economy at the point of its having reached the extreme state of "disintegration and impoverishment," an obvious outcome would be an inflationary spiral and confusion of the national economy. Such a state of affairs would hamper rational utilization of productive resources and render a smooth resuscitation process im-

practicable. Therefore, the money credits accruing from the procurement of war funds would have to be nullified.

(2) Allocation of physical factors of production, that is, natural resources, manufacturing plants, raw materials, manufactured goods, and consumer goods in accordance with the requirements of the resuscitation process. Private property rights, including vested interests, would have to be sacrificed or restricted whenever such steps became necessary in order to carry out such a redistribution.

(3) Allocation of the labor force. The labor force, too, would have to be reorganized in order to rehabilitate the production process. For that purpose it would have to be placed under strict organization and discipline, and freedom of employment would have to be restricted as well. Such conditions in which an acute shortage of labor occurs in quarters where labor power is actually needed, while an abundant labor force is found where it is unnecessary would not be allowed to exist.

(4) Adjustment between the double purposes of the operations regarding the restoring of the economy. At that time two purposes were to be attained, one being that of putting a stop to the further deterioration of the people's livelihood, and the other the expansion of production. But it was no easy task to co-ordinate these objectives so that they should not interfere with each other. If the Japanese economy as a whole could realize an increase in both national production and national income by relocating, in accordance with peacetime conditions, the human productive forces hitherto used for war, the remaining job would be the adjustment between these two factors. On the contrary, if such an increase should not be feasible, the alternative would be either to forget about these objectives or to seek for some sort of rescue from outside.

It should be recalled that Japan was charged with the obligation of paying the occupations costs. Consequently, aside from the sustenance of the people and rehabilitation of the national economy, the problem of defrayment for the occupation costs had to be resolved simultaneously, which meant, of course, an additional burden for any economic planning.

The most important question of all, however, was who should take charge of bringing back a stable, abundant economy. For the purpose of

arranging a planned economy, there would have to be an appropriate agency for investigation, research, planning, implementation, and supervision; but the responsible body, which was to undertake all these arrangements would first of all have to be determined. That the people responsible for the war economy be counted as proper candidates for such a task was, of course, absolutely out of the question. It would contradict the occupation objectives. Therefore, the candidates for the job had to be sought in other directions.

Here it would be well to take a closer look at the group responsible for the war economy. At first sight it appears to have consisted of the fascist elements among the Japanese people; the question is, why did it want a war with America? It wanted to prevent America from becoming a 'menace to Japan'; or, in more concrete terms, it sought to insure Japanese imperialism or the Japanese capitalist class a clear road for further development. Hence, it follows that it was the capitalist class that was making use, although probably not consciously, of fascist elements for its own benefit. Against such a background, let us again pose the question of who should properly have been selected as candidates for planning the postwar economy. Seen from the actual industrial class structure of the Japanese society, the alternatives were either the capitalist class, the working class, or a united front of these two.

In Japan, after World War II, nothing happened comparable to the Russian or German revolutions after World War I. The Japanese working class had been dragged into war and freed from it by sheer force of historical circumstance. True, they were being "emancipated" under the occupation, but it was all they could do at that time to struggle for their immediate partial gains or, at best, act as a pressure group; in short, they had neither the will nor the ability to become responsible for the postwar economic planning. While the peasantry or tenant class, with their strong demand for the solution of the land problem, was apparently seized with a "revolutionary" fervor, the working class did not show even the slightest readiness to cooperate with them. The peasants' fighting mood was further neutralized and dissipated by the price rise of agricultural produce resulting from inflation, and by the land reform carried out under the

directive of the occupation authorities. The peasant class, which has by nature a strong inclination toward speculation, small-scale private ownership, and commodity economy, eventually proved itself to be a faithful ally of capitalism. No sort of social force materialized, therefore, that could have become the principal agent for carrying out a democratic revolution in its fullest sense.

Thus, in spite of certain setbacks, Japanese capitalism was able to survive without changing its former characteristics. Certain occupation policies, the purge in particular, dealt damaging blows to Japanese capitalism and to the capitalist class. But capitalism as a system was by no means hurt. Notwithstanding the loud clarion call for democratization, big business was left untouched in most cases. Again, since the new business leaders had virtually been the lieutenants of those purged from the business world, the purge itself was, in the final event, only a sort of reshuffling of management personnel on a large scale. It had rather the effect of rejuvenating and readjusting the leadership of the capitalist class to meet the needs of the postwar economy; and was merely a shift of leadership from those who had been trying to develop Japanese capitalism even at the expense of a war with America, to those who wanted to do the same thing in cooperation with America and under the conditions of the American occupation.

As a matter of course, therefore, there was no chance at all for the first method of postwar economic planning to materialize, since its primary task, the nullification of money credits would bring the bank or the finance capital—the central nerve of Japanese capitalism—to ruin, thereby necessitating a fundamental reorganization of Japanese capitalism. The so-called “miracle of West Germany” provides an example of how a capitalistic system could, even after passing through a highly critical phase with reorganization at a fundamental level, make its start again as a stabilized and developing system. In Japan, partly due to the immaturity of the working class at that time, the political and economic leaders of postwar Japan showed neither the will nor the inclination to undertake such a radical operation, and adopted a second method whose tactics consisted of preserving the old regime as far as possible on the one hand, and

on the other in exerting a sort of passive resistance in their relation to the occupation authorities, that is, an outward show of obedience combined with efforts to gain as much as possible while giving away as little as possible.

A third method, that of capital-labor cooperation was tried in certain instances, as, for example, in the so-called "rehabilitation committees" established in a number of industrial plants; but this soon proved ineffective in the face of the prevailing situation.

What then were the major features of the method finally adopted to resolve the problems of postwar Japanese economy?

The Objective and the Formula

Before following the actual course of development of Japan's postwar economy in some detail, it would be convenient to stop here to define the objective which had to be attained and clarify the basic formula necessary for resolving such a task.

The ultimate goal to be pursued was the attainment of the independence of the Japanese economy as a capitalist system. Not only did the Japanese economy, which had been weakened both quantitatively and qualitatively throughout the war period, need to be rehabilitated and strengthened, but also it had to be brought to a level equal to that of advanced capitalistic countries. Besides, such an effort also had to serve the purpose of stabilizing and improving the living conditions of the workers and peasants, lest they grow discontented with capitalism and act to overthrow it by taking advantage of their newly obtained democratic freedoms. In postwar Japan, there was neither a law for the maintenance of the public peace nor a powerful army and police, and the democratic constitution was taking effect.

Now let us recall the following diagram, which we have studied in the section "Feudal Japan" in Chapter I (See Fig. 3).

This was meant to show the gross output and its division for various purposes as regards the individual peasant in feudal society; but it can also be regarded as a diagram showing the division of the total product of the

FIG. 3 DIVISIONS IN PEASANT ECONOMY

For production	For subsistence	Surplus for exploitation
-------------------	--------------------	-----------------------------

peasant class as a whole, or, further, that of the peasants, handicraftsmen, merchants, and financiers put together. Provided that the goods allotted "for production" be secured, the following year's production would, as far as physical factors were concerned, be renewed on the same level as that of the current year; that is, the material conditions for simple reproduction would be guaranteed. Similarly, if the goods "for subsistence" be secured, the livelihood as well as the labor power of the commoners, including their families, would be insured, thereby enabling the following year's production to continue, as far as the labor force was concerned, on the same level as that of the current year; that is, the human conditions for simple reproduction would be guaranteed.

On the other hand, the parts marked by "surplus for exploitation" were supposed, in the case of feudal society, to be allotted for consumption by the *samurai* class. However, in order that the national economy should be expanded, or that a reproduction on a progressive scale be realized, at least some portion of the "surplus" must be spent "for production"; that is, there must be a certain amount of "investment."

Now, by applying this model of a national economy to the postwar economy of Japan, we are led to the following basic formula: In order that the Japanese economy should function normally, it was essential that there be a substantial balance after subtracting the parts needed for simple reproduction, for the subsistence of the people, and for government expenditure from the gross national product, which balance could be utilized for reproduction on a progressive scale. Once this condition was fulfilled, the Japanese economy would be guaranteed "deliverance" from "disintegration and impoverishment" and be assured of further development. For that purpose, however, the entirety of the natural resources, industrial plants, raw materials, and manufactured goods as well as the

labor force then existing in Japan had to be mobilized, organized, and relocated in accordance with the following diagram:

FIG. 4 FURTHER DIVISIONS IN PEASANT ECONOMY

For simple reproduction	For subsistence	For government expenditure	For enlarged reproduction	From abroad
-------------------------	-----------------	----------------------------	---------------------------	-------------

However, as a general rule in a capitalist society, all these physical factors of production are the private properties of individual enterprises or persons. Therefore, insofar as the first method of rescuing the Japanese economy as outlined previously was excluded from consideration, the mobilization and relocation of these physical factors of production could only be realized by means of the magic wand of currency and the law of supply and demand. This also applied to the mobilization and relocation of the labor force. Therefore it was necessary to supply funds in various forms, such as credit and subsidies, to business organizations. Added to this was the fact that the credits in money accumulated during the war were not nullified at all. All these factors could lead only to inflation. In short, it was by way of inflation that the mobilization and relocation of the physical as well as the human factors of production were made possible.

Furthermore, in the above diagram, is an additional section marked "from abroad," indicating that a part of the consumers' and producers' goods were supplied gratis from outside. At this point we must take notice of the fact that a considerable amount of these goods supplied from abroad acted as a blood transfusion indispensable for expanding the national production as prescribed by the diagram.

Inflation

As of August 14, 1945, or the day before the surrender of Japan, the total issue of Bank of Japan notes was about thirty billion *yen*, but it rose to forty-two billion by the end of the same month—an increase

of 40 per cent during a period of only two weeks! There has never been such a tremendous expansion of currency even at the height of the inflation in later years. Defeated Japan started its first step forwards by an inflated currency.

Deflation, forecast in some quarters as a result of the inevitable contraction of the wartime demand, had not materialized. On the contrary, the government adopted the policy of inflating the currency in order to curb the social, political, and military disorder which would otherwise have followed the defeat in war. In Japan after the surrender, there were the officers and soldiers who had been released from the wartime draft, workers who had been dismissed from the shutdown munitions factories, *entrepreneurs* and employees of the small plants that had been directly or indirectly connected with the war industries, the people a part of whose income or whose insurance for war damages had been frozen by government order, and people who had been compelled to buy government bonds with their meager savings. Had all these people been loosed in the framework of Japanese capitalism—a system in which the laws of commodity and money alone prevailed—it is fairly probable that some sort of social disorder would have broken out. It must be admitted, therefore, that the monetary inflation played a part in bringing about the avoidance of social turmoil. And furthermore there is also the fact that a great deal more of the inflated money was spent in mobilizing productive factors than in direct consumption.

It is possible, therefore, to see a certain justification for the following defence of the inflation policy which was advanced by Finance Minister Ishibashi at that time:

The immediate objective of the national finances . . . consists in providing the people with occupation, in rehabilitating industry, and in developing the national economy. Our ultimate goal is the realization of a state of full employment. However perfectly the state revenue and expenditure be kept in balance, we cannot call such a policy financially 'sound' as long as the country is filled with unemployed and a sizable part of the production capacity is lying idle. . . .

When we take account of such phenomena as the remarkable increase in paper note issues, the rise of prices, wages, etc., . . . our national economy in the

postwar period is certainly showing an inflationary tendency. After one year since the defeat in war, our country is by no means in a state of full employment. . . . We have now hordes of unemployed people, and even those who are apparently employed are not really engaged in normal productive activities. A considerable portion of the production facilities lies idle. This is not a state of full employment, but rather that of extreme under-employment. The expansion of currency and price rise under such conditions . . . cannot properly be called inflation.⁶

Of the total accumulation of credits in money caused by war, by far the largest items were the national debt of about 120 million *yen* and the military compensation of about 100 billion. Various proposals were made but no effective measures taken for their liquidation. Added to the circumstances described above, this gave further impetus to the currency expansion. The issue of Bank of Japan notes was registered at 55.4 billion *yen* by the end of December 1945, and at 60 billion at the end of January, 1946.

The increased issue of the Bank of Japan notes was caused by the increased demand for money on the part of the government as well as the city banks, but the resulting aggravation of the inflationary tendency gave rise not only to an increase in the amount of lendings by the city banks, but also to a decrease in the deposits in the banks. Such a phenomenon is an unmistakable sign of imminent bankruptcy, and thus, the relief of the banks, which formed the backbone of Japanese capitalism, was placed on the agenda. Relief measures were the exchange of old currency for new *yen* notes and the freezing of bank deposits, in order to block excessive purchasing power. As a result, the amount of Bank of Japan notes in circulation shrunk from 61.8 billion *yen* on February 18, 1946, to 15.2 billion on March 12 of the same year.

However, this policy did not aim at a nullification but merely a freezing of money credits. Furthermore, there were many loopholes in the measure, through which money escaped as an effective purchasing power. Generally speaking, the viewpoint of both the government and Bank

⁶ From a parliamentary speech by Finance Minister Tanzan Ishibashi on July 25, 1946; quoted in *Sengo Keizaishi* ("History of the Postwar Economy"), *op. cit.*, pp. 55-6.

of Japan authorities was governed by the line of thought expressed in the above-quoted speech of the Finance Minister. The issue of Bank of Japan notes showed violent increases as indicated in the following table:

TABLE 27
ISSUES OF BANK OF JAPAN NOTES AFTER THE WAR⁷

End of 1944	17.7 billions of yen
1945	55.4
1946	93.4
1947	219.1
1948	355.3
1949	355.3
1950	422.0
1951	506.4
1952	576.4
1953	629.9
1954	622.1
1955	673.9

Keeping pace with such an inflation of currency, price indexes, as well as wage indexes, also showed extraordinary increases (See Tables 28 & 29).

We learn from these tables that the rise in wages was retarded in comparison to that of the prices of consumer goods, and real wages did not regain their prewar level until 1951, with the lowest wage level at 30.2 in 1947. This trend in the wage indexes eloquently illustrates how the labor force in postwar Japan was "mobilized" and "relocated" through inflationary measures for the purpose of the expansion of production.

⁷ *Nihon Keizai Tokeishu: Meiji-Taisho-Showa* ("Statistics of Japanese Economy: The Meiji, Taisho, and Showa Eras"), *op. cit.*, p. 234.

TABLE 28
CHANGES IN POSTWAR PRICE INDEXES (Tokyo)⁸

Year	Wholesale prices (1934-6=1.0)	Retail prices (1914=1.0)
1944	2.3	3.2
1945	3.5	4.7
1946	16.3	29.0
1947	48.2	78.1
1948	127.9	229.1
1949	208.8	372.8
1950	246.8	366.3
1951	342.5	474.0
1952	359.2	461.4
1953	351.6	474.5
1954	349.2	504.0
1955	343.0	493.1

TABLE 29
CHANGES IN POSTWAR WAGE INDEXES⁹

Year	Nominal wages	Consumer goods	Real wages
1934-6	1.0	1.0	100.0
1947	32.9	109.1	30.2
1948	91.9	189.0	48.6
1949	157.1	236.9	66.3
1950	187.9	219.9	85.4
1951	235.2	255.5	92.1
1952	272.2	266.2	102.3
1953	307.0	286.2	107.3
1954	325.8	301.8	108.0
1955	340.4	297.4	114.5

⁸ *Ibid.*, p. 282.

⁹ *Ibid.*, p. 282.

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1955	340.4	297.4	114.5

⁸ *Ibid.*, p. 282.

⁹ *Ibid.*, p. 282.

Supplies from Abroad

Even by resorting to the magic power of currency and the law of supply and demand, it would have been impossible to restore the Japanese economy had there been a complete lack of the materials required for production and for subsistence. Fortunately, the postwar economy of Japan was saved by supplies from abroad. First of all, such staple foods as rice, wheat, flour, barley, corn, beans, soy bean flour, sugar, potatoes, and so on, were imported, the total staple food imports in each crop year being 710,000 tons in 1946, 1,900,000 tons in 1947, and 1,940,000 in 1948. The "History of the Postwar Economy" informs us that "21 per cent of the total of rationed foods . . . was imported from abroad."¹⁰ A more generalized picture of the aid from abroad is given by the following table:

TABLE 30
FOREIGN TRADE AND AID FROM ABROAD IN POSTWAR
YEARS¹¹
(in millions of dollars)

		Total exports (A)	Total imports (B)	Imports in aid (C)	(A) (B)	(C) (B)
From the end of the war to the end of:	1946	103	306	193	0.34	0.63
	1947	174	526	404	0.33	0.76
	1948	258	684	461	0.38	0.67
Total		535	1,516	1,058	0.35	0.68

It will be observed from this table that 68 per cent of the supplies from abroad received by Japan during those three critical years were grants-in-aid provided free of charge; and this huge quantity of foreign aid was necessary in order to sustain or expand the production process of the Japanese economy. Annual imports in aid in the subsequent years were: 519 million dollars in 1949, 357 million in 1950, and 151 million in 1951.

¹⁰ *Sengo Keizai-shi: Soka-hen* ("History of the Postwar Economy"), *op. cit.*, p. 122.

¹¹ *Ibid.*, p. 163.

In short, about 2.1 billion dollars worth of grants-in-aid were received from abroad during the whole period of the occupation.¹²

Such was the state of affairs during the occupation; but two factors, which have gained importance since the end of the occupation, must not be overlooked. One is the earnings from the so-called "special procurement" of the United States forces, which has continued from the time of the outbreak of the Korean War up to the present time. These dollars received by Japan from the U.S. forces stationed in Japan and from the U.S. government are payments for goods or services furnished by Japan, and are not by any means grants-in-aid. Though these payments belong by nature to the category of earnings from exported goods, some of the goods and services in the procurement lists are unexportable or, even if exportable, no customers other than the United States could possibly be

¹² In reality, a part of these U.S. grants-in-aid was refunded by Japan in the form of "occupation costs" which was an important item in the government expenditure in the postwar period. The conditions of surrender obligated Japan to bear the occupation costs, but the United States had no obligation to aid Japan. Therefore, legally speaking, the occupation costs paid by Japan and the U.S. aid by no means cancel one another; but, from an economic point of view, it is pertinent to examine the relation between the two. Also it is of significance to examine the amount and the nature of goods and services furnished by Japan as "occupation costs," because these necessarily influenced various factors of national production. The following table from the "Statistics of Japanese Economy" shows the percentages of total occupation costs toward total government expenditure:

Year	Total government expenditure (A) (in billions of yen)	Total occupation costs (B) (in billions of yen)	$\frac{(B)}{(A)} \%$
1946	115.2	36.9	32.0
1947	205.8	63.7	30.9
1948	462.0	105.6	22.8
1949	699.4	98.0	14.0
1950	633.3	96.8	15.3
1951	749.8	91.4	12.2
1952	873.9	18.1	2.1

The total expenditure for the occupation, therefore, adds up to about 550 billion yen during the whole period; or about 1.4 billion dollars at the exchange rate of 1 dollar = 360 yen. But computed by various exchange rates current at various periods, the real value would be 4.8 billion dollars. More detailed research is desirable on this subject, however.

found for them. In that sense, the dollar earnings from special procurement are to be regarded as special income. Thanks to such income, the Japanese economy has been freer than it would otherwise have been from the threat of an unfavorable balance of trade.

The other factor is the large-scale importation of American capital. This has been carried out under various forms, and the time may come in the future when the United States will withdraw all these investments together with their profits and dividends; but, as long as such importation of capital continues, the Japanese economy is supplied with a corresponding amount of goods and services from abroad, free of charge. This factor, too, enables the Japanese economy to develop with lesser danger of unfavorable balance of trade.

Apart from the grants-in-aid during the occupation, the dollar earnings from the above two factors has enabled and will, at least for a certain length of time, enable the Japanese economy to receive more from the world economy than she gives to it. To that extent, therefore, the growth of the Japanese economy has been guaranteed. We must not forget that her dollar earnings from these special sources have contributed in a large measure to the growth of Japan's postwar economy; but, at the same time, we should not lose sight of the fact that her domestic situation, economic and political, as well as her foreign policy, has been greatly influenced and, so to speak, distorted for this same reason.

Undamaged Equipment and Stockpiles

In reference to the problem of mobilization and relocation of productive factors, it is essential to survey the state of industrial equipment and circulating capitals in the production phase, which still remained at the time of the surrender.

According to a detailed survey conducted by the Economic Stabilization Board, industrial equipment left undamaged by the war was as follows:

Among fifty-six subclasses of industries, those which were completely free

from war damages, including hydraulic power generation and sheet glass manufacturing, were only five. All other industries had suffered damage to a greater or lesser degree. The one class of industry which was damaged most heavily was the power industry, and the subclass most heavily damaged was petroleum refining. The subclasses which had been least damaged were the non-ferrous metals industry and the staple fiber manufacturing (the latter being completely free from damage).

In the power industry class, all subclasses except that of hydraulic power generation showed high damage rates ranging from 30 to 58 per cent. Next to the power industry, the damage incurred by the machine industry was the heaviest, because factories under this category had been chosen as the main targets of air bombardment. The subclass of vacuum tube manufacturing, for example, had the highest damage rate of 56 per cent. In the chemical industry class, too, all subclasses except that of sheet glass manufacturing showed considerably high rates of damage. As for the class of non-ferrous metals, which suffered the lowest rate of damage, three subclasses were entirely free from damage; while the damages of the remaining seven were not so heavy, excepting the aluminium industry with a rate of 23 per cent, and the electrolytic copper manufacturing industry with a rate of 22.1 per cent.¹³

The survey of stockpiles of raw materials also conducted by the Economic Stabilization Board gives the following data: The total value of stockpiles remaining at the time of the surrender was about 25,100 million *yen* (at the price rate of that time); of which 16,600 million belonged to private enterprises, 5,800 million to the government and military agencies, and 700 million to peasant households; while 2,000 million consisted of the value of merchandise and miscellaneous materials. Compared with the Bank of Japan note issue at the time of the surrender (about 30,000 million *yen*), the size of the general account of the 1945 national budget (20,500 million), the income tax revenue of the same year (3,800 million), or the total expenditure of the special military account from 1937-45 (about 187,000 million), the total value of stockpiles must be said to have been considerable.

¹³ *Sengo Keizaishi: Sokan-hen* ("History of the Postwar Economy"), *op. cit.*, p. 15.

Return to Prosperity

Assisted by such factors as we have seen in the preceding sections, Japanese economy revived and again began to proceed along the path of capitalism. The following table indicates the development of industry in the decade following the defeat in war:

TABLE 31
PRODUCTION INDEXES IN POSTWAR YEARS
(1934-36=100.0)

	1946	1951	1955
Public utilities	109.1	184.7	254.7
All industry & mining	30.7	114.4	180.7
All manufacturing	28.9	115.1	189.4
Metals	15.6	144.0	218.9
Machinery	51.4	197.1	249.9
Ceramics	29.1	136.6	175.7
Lumber & wood products	60.3	157.1	186.6
Textile	12.2	58.0	85.9
Chemicals	26.3	140.7	317.4
Rubber & leather	28.7	129.4	177.7
Foodstuff	38.7	104.7	206.6
Durable goods	36.5	164.3	226.3
Non-durable goods	21.8	89.2	168.0

Furthermore, we are informed that:

The level of the total industrial and mining production showed an increase of 87.8 per cent in comparison with the prewar level. Of course, the rates of growth in individual classes of industries are not even; whereas the increase in public utilities was 154.7 per cent, that in all industry and mining was only 80.7 per cent. In the manufacturing industry, the remarkable increases in metals, machinery, and chemicals contrast with the comparatively low increase rates in consumer goods production such as the textile industry, lumbering, foodstuff manufacturing, and printing. The textile industry, for example, still shows a decrease of 14.1 per cent in comparison with the prewar level. This same

tendency is demonstrated by the fact that while the production index for durable goods has increased by 122.6 per cent, that for non-durable goods has grown by only 68 per cent. . . .

The reasons for such changes in the industrial structure are as follows:

(a) Because the loss of colonies and spheres of influence, as well as the stoppage of foreign trade, made it difficult to procure raw materials, the emphasis in economic policy was placed on the achievement of self-sufficiency.

(b) Priority has been given to the production of durable goods in order to recover rapidly from the loss of depreciation of capital goods caused by war damage.

(c) Since the war, the center of gravity of the industrial production has been shifted from light industry to heavy and chemical industries in view of industrial development in underdeveloped countries.

(d) The increase in exports and special procurement purchases resulting from the so-called Korean war boom gave an impetus to the above tendency.

(e) Positive measures for the extension and rationalization of production facilities were taken in order to catch up with the advanced countries; this policy was characterized by an extensive program of government subsidizing and financing of heavy and chemical industries.¹⁴

Subsequently, too, the Japanese economy has continued to develop along the same lines. The Economic White Paper, a yearbook published by the Economic Planning Board, tells us that by taking the year 1955 as basis (=100), the economic indexes for the year 1960 were: 235.8 for gross national product, 189.6 for electric power generation, 207.4 for municipal gas manufacturing, and 249.3 for all industry and mining. Even the output of the coal mines, in spite of having shown a marked decline in recent years, has increased to 123.8. The index for the all manufacturing industry has reached 248.3, of which the figures for petroleum and coal derivatives and for machine production are 284.9 and 478.1, respectively. According to other statistics, which use the year 1960 as basis (=100), the indices for the year 1962 were: 129.1 for gross national product, 125.9 for electric power generation, and 129.2 for all industry and mining. Most remarkable are such figures as 133.0 for chemicals,

¹⁴ *Ibid.*, pp. 627-8.

138.6 for petroleum and coal derivatives, and 144.6 for machine production.

The following table computed by the Ministry of Agriculture and Forestry gives us indexes for the gross agricultural production in the postwar period:

TABLE 32
GROSS AGRICULTURAL PRODUCT IN POSTWAR YEARS¹⁵

1933-5	100.0
1946	78.0
1951	106.0
1955	127.0

Though not necessarily correlated with these figures, the index based on the period 1950-2 (= 100) for the combined production of agriculture, forestry, and maritime industry in 1961 was 140.8, and that for agriculture alone in the same year was 134.6. These indexes have shown continued increases since 1950-2 except in the year 1956.

Next, what was the trend of consumption by the people? The following table is based on the "History of the Postwar Economy" and the "Economic Handbook"¹⁶ both published by the Economic Planning Board:

TABLE 33
TREND OF NATIONAL CONSUMPTION IN POSTWAR YEARS

	Gross national consumption	Consumption in urban areas	Consumption in rural areas
1934-6	100.0	100.0	100.0
1946	57.5		82.7
1951	85.6	68.9	109.4
1955	114.1	106.5	132.5
1960	142.3	135.9	151.9
1961	151.9	144.1	163.7

¹⁵ *Ibid.*, p. 628.

¹⁶ *Ibid.*, p. 644; and *Keizai Yoran*, ed. the Economic Planning Board ("Economic Handbook," Tokyo: Keizai Kikaku-cho, 1963).

To obtain a summary of the foregoing, let us turn to the statistics showing the gross national expenditure. We have learned from the diagram in the section entitled the "Objective and the Formula" that, in ordinary cases, an increase in the national consumption presupposes an increase in gross national product; but for the latter increase to materialize, it is necessary that the surplus be spent not for consumption alone but also for expansion and improvement of industrial equipment and raw materials. How this was done is revealed in the following table formulated from data from the "National Income White Paper"¹⁷ and the "Economic Handbook, 1963":

TABLE 34
GROSS NATIONAL EXPENDITURE IN POSTWAR YEARS

(The figures in the first column are in billions of yen; others are in per cent)

		Personal consumption expenditures		Government Purchases of goods & services	Private domestic investment	Producers' durable equipment	Balance of current transactions overseas
Gross national expenditure					(A)	(A=100)	
1946	333	100.0	70.3	17.8	16.0	49.2	-4.1
1951	5,444	100.0	55.4	17.7	23.0	48.7	3.9
1956	9,293	100.0	59.2	17.5	24.4	56.7	-1.1
1961	17,702	100.0	50.4	18.8	32.8	69.7	-2.0

We see that, in the year 1946, the year following the end of the war, about 70 per cent of the gross national income was spent for personal consumption, while only 16 per cent was appropriated for private domestic investment; and that, of the latter, only a half was spent for producers' durable equipment. The figures marked with a minus in the column at the far right represent the receipt in the nature of "supplies from abroad" in the respective years. By following the changes in these figures, the decreases in personal consumption expenditures as well as the increases in private domestic investment and producers' durable equip-

¹⁷ *Kokumin Shotoku Hakusho*, ed., the Economic Planning Board ("National Income White Paper," Tokyo: Keizai Kikaku-cho, 1962).

ment, we can picture the changes and expansion of scope of Japan's post-war economic structure.

After Two Decades

More than twenty years have passed since Japan's defeat in 1945. In the preceding chapters a number of outstanding characteristics of Japanese capitalism have been enumerated, and an account given of the reorganization of the Japanese economy at the hands of the occupation authorities. Let us now try to define the general features of the present-day Japanese economy against such an historical background.

According to statistics compiled by the Ministry of Finance, there were about 531 thousand corporations in Japan in 1961, of which 394 thousand or 82 per cent possessed capital funds of less than two million *yen*. Those corporations whose capitals were more than two and less than ten million *yen* numbered 79,800 or 15 per cent. Therefore, no less than 97 per cent of the total were small corporations with capitals of less than ten million *yen*. To the class which consisted of what may be called middle-sized enterprises, with more than ten and less than 100 million as capital funds, belonged about 110 thousand corporations or 2 per cent of the total. Lastly, the big enterprises numbering 2,800 and having capitals of more than 100 million *yen* each, represented only 0.5 per cent of all corporations.

However, these large enterprises, while comprising a mere 0.5 per cent of the total corporations, also represented no less than 74.9 per cent of the total value of the capital funds of all corporations, 47.4 per cent of their gross sales, 68.8 per cent of their gross assets, 74.9 per cent of their fixed capital, 59.2 per cent of their net profit, and 29 per cent of the total number of their employees. Further, among the above 531 thousand corporations, there were 517 enterprises which were equipped with capital funds of more than one billion *yen* each. These giant enterprises comprising less than 0.1 per cent of the total corporations represented 58.9 per cent of the total value of the investments of all corporations, 33.3 per cent of their gross sales, 47.7 per cent of their gross assets, 59.5 per cent of their

fixed capital, 44.3 per cent of their net profits, and 18.1 per cent of the total number of employees.

A similar story is told by statistics on the number of plants classified by the number of employees in each plant. The following are the figures for the year 1961:

TABLE 35
INDUSTRIAL PLANTS CLASSIFIED BY THE NUMBER OF
EMPLOYEES, 1961¹⁸

	No. of plants	Total no. of employees (in 1,000)
Total	3,668,659	25,732
State-owned and public corporations	27,227	1,218
Private and municipally owned	3,641,432	24,514
1 employee	1,015,799	1,016
2-4 employees	1,738,237	4,496
5-9 employees	480,393	3,073
10-29 employees	294,391	4,679
30-99 employees	90,545	4,414
100-499 employees	19,562	3,785
500-999 employees	1,562	1,071
1000 and more	942	1,980

Our attention is also drawn to the following figures, which show the percentages of cash payments and periodical bonuses for workers hired by manufacturing plants employing less than 500 people, as compared with payments by those with 500 or more workers:

TABLE 36
PERCENTAGE OF WAGE PAYMENTS CLASSIFIED BY THE
SIZE OF PLANTS (1960)¹⁹

No. of operatives	Wage payments in cash	Periodical bonuses
100-499	70.7	73.6
30-99	58.9	65.8
5-29	46.3	53.2

¹⁸ *Keizai Yoran* ("Economic Handbook"), *op. cit.*, p. 60.

¹⁹ *Ibid.*, p. 60.

What is revealed by these statistics is a typical case of a dual structure in the economy as well as the predominance of giant enterprises. Although the fact is not apparent in the above tables, the true picture of today's Japanese economy is that of various groupings of large and giant enterprises with powerful banks as centers, and of the domination of individual industrial sectors by those groups or combines of large enterprises, with each one of them commanding a series of small-and middle-sized enterprises as sub-contractors or subordinate factories. Large enterprises in the same sector of industry are organized in various cartels and combines in order to coordinate their activities and to protect their common interests. Moreover, the government, with its large share in the gross national expenditure, has been taking an active part in the protection and promotion of the interests of those cartels and combines, not only through its spending but also through its legislation, administrative measures, and taxation procedures.

Therefore, the predominance of the state and of state capital, which had as we have noticed in Chapter II played a decisive role in the development of Japanese capitalism, still constitutes one of her basic characteristics, even in the 1960's. Monopoly capitalism, or rather state-monopoly capitalism based on a dual structure is, in a word, the fundamental characteristic of present-day Japanese capitalism.

Let us turn to the present situation regarding Japanese agriculture. As a supplement to the table listing the number of agricultural households analyzed by the area of cultivation²⁰ in Chapter II, here are statistics show-

TABLE 37
DISTRIBUTION OF AGRICULTURAL HOUSEHOLDS BY AREA
OF CULTIVATION, 1960
(in 1000 households)

	Total	Under 0.3 hectares	0.3-0.5 hectares	0.5-1.0 hectares	1.0-1.5 hectares	1.5-2.0 hectares	Over 2.0 hectares	Others
Actual no.	5,796	1,266	992	1,907	1,001	404	237	17
Percentages	100.0	21.7	17.0	32.7	17.2	6.9	4.1	0.3

²⁰ See Table 10; this latter table covered all Japan, but Table 37 shown here excludes Hokkaido.

ing the distribution of agricultural households of various sizes in 1960.

Though the standard of classification here is somewhat different from that in the former table, it is quite apparent that more than 70 per cent of the households belong to the group with less than 1.0 hectares. This picture of agriculture falls far short of the ideal of a democratic agricultural community composed of independent owner-cultivators as envisioned by the American occupation policy-makers. Moreover, it is significant that the Japanese village is closely connected with capitalism not only through the movements of commodities and capital but also through the movement of labor forces. This is revealed in the table concerning the distribution of households engaged only in agriculture and those partially engaged in it.²¹ The relevant figures for the year 1960 are as follows:

TABLE 38
HOUSEHOLD ENGAGED EXCLUSIVELY IN AGRICULTURE
AND THOSE PARTIALLY ENGAGED IN IT, 1960
(in 1000 households)

	Total	Engaged only in agriculture	Engaged partly in agriculture		
			Group I	Group II	Total
Actual no.	6,057	2,078	2,036	1,942	3,978
Percentages	100.0	34.3	33.6	32.1	65.7

The average yearly income of an agricultural household in all Japan was about 440,000 *yen* in 1960; of which 210,000 *yen* were from agriculture and the remaining 230,000 were from sources other than agriculture, with 150,000 of the latter being made up of house rentals, wages, and allowances. Excluding the earnings in kind included in the above computation, the average cash income of an agricultural household in 1960 was 350,000 *yen*, of which 140,000 *yen* came from agricultural, and the remaining 210,000 *yen* from non-agricultural sources.

The statistics shown in Table 39 on rice-producing households and their sale and delivery of rice in the year 1961 also deserve careful study.

Of significance is the fact that, of the total number of 5,313,000 rice-producing households, nearly 2 million did not deliver their produce for

²¹ See p. above.

TABLE 39
RICE-PRODUCING HOUSEHOLDS AND THEIR DELIVERY OF
RICE, 1961²²

	Rice-producing households (in 1000)	Rice-delivering households (in 1000)	Total amount put on sale (in 1000 tons of unhulled rice)
Actual numbers	5,313	3,348	6,191
Percentages	100.0	100.0	100.0
Under 0.3 hectares	34.1	10.2	1.7
0.3-0.5 hectares	23.3	24.9	7.5
0.5-1.0 "	28.6	42.7	32.3
1.0-1.5 "	8.9	14.0	25.2
1.5-2.0 "	3.0	4.8	14.7
2.0 hectares and more	2.1	3.4	18.6

sale, and that no more than 3.4 per cent of them had as large a share in the amount of delivery as 18.6 per cent; while 10.2 per cent of the households represented only 1.7 per cent of the total delivery. This fact, together with the remarkable development of mechanized cultivation and of *entrepreneur*-type agriculture in postwar years, inevitably leads to the conclusion that, excepting for a small group of well-to-do households, a majority of the cultivators are still of the status of poor peasants in the lower stratum of the dual-structured society.

Although the statistical data presented here in this chapter is far from being ample or adequate, from these figures we can at least draw a general picture of the present stage of Japanese capitalism. Let us examine this picture in reference to the basic characteristics of Japanese capitalism before World War II enumerated in Chapter II.

The predominance of the state and state capital as well as of giant enterprises has been rather strengthened than weakened. The conditions of the middle-, small-, and especially dwarf-sized enterprises are no different from those of prewar days. Notwithstanding the fact that conditions for all social layers and groups have more or less seen improvement, the tempo of development in individual groups has been uneven, thereby rendering the gap between the upper and the lower stratum wider rather than narrower. It is true that, in exceptional cases, the medium-sized

²² Keizai Yoran ("Economic Handbook"), op. cit., p. 60.

enterprises have improved their standing but usually such improvement has been accompanied by stronger ties with, and subordination to, big enterprises.

As a result of the dual structure on the part of the capitalist enterprises, there exists a marked tendency to dual structure also in the labor market. Aside from the labor force that has been organized and has thus attained to a comparatively high wage level through collective bargaining, there are still hordes of temporary workers, sub-contract workers, and family workers who do not enjoy so favorable a status.

Does all this mean, however, that the Japanese capitalism of the 1960's has not changed its nature as compared to the capitalism of the prewar years?

New Features in Japanese Capitalism

Here let us try to establish what features of present-day Japanese capitalism differ from those of prewar times.

To begin with, there is the problem of population, or rather, that of overpopulation. Though it is difficult to predict accurately the future population trend, it has been noted that the pressure of overpopulation has diminished since the latter part of the 1950's. The rapid growth of the national economy has strengthened the demand for labor forces on the one hand and, on the other, the rate of population increase itself has been showing a tendency to slow down. The increased demand for the younger generation of workers caused by technical innovation has brought about a shortage in the labor market. To that extent at least, the dual structure in the wage level and working conditions for the younger generation workers is gradually disappearing.

On the other hand, technical innovation tends to make a large proportion of the middle- and old-aged workers useless, and thus causes overpopulation in those particular age groups of the labor force. Generally speaking, however, if the present rate of economic growth is maintained at a steady pace, we may expect that the phenomenon of overpopulation or latent unemployment, which for long years has been a major difficulty

in the Japanese economy, will eventually disappear. Provided that other factors also become favourable, such a tendency may possibly lead to a relaxation or the disappearance of the dual structure in the Japanese economy.

Among what we have termed "other factors" are to be counted the possible changes in the conditions in villages. The liquidation of the landlord class through the Land Reform was indeed a fundamental change. The surplus formerly exploited by the landlord has now become part of the income of the cultivator; which means that the redistribution of the land as a production factor has been accompanied by a distribution of the income from agriculture. As a result, the agriculturalists and the rural areas have come to assume much more importance in the domestic market than before, as consumers of daily necessities and producers' goods, and in their relation to the capitalistic enterprises including heavy and chemical industries as well. However, this does not necessarily mean that inequalities in the rural communities have disappeared or that all agricultural households are now assured of prosperity. As we have observed in the preceding section, there is considerable evidence to the contrary.

We know that prewar Japanese capitalism was strongly colored by imperialism and militarism, with the consequence that military expenditures comprised a substantial share of the national budget. This situation completely changed after World War II, as we have learned from Table 5, "Trend of Government Expenditures, 1890-1960" in Chapter II. One of the main factors that enabled Japanese postwar economy to keep on growing at a remarkable pace was the reduction of military expenditures, which made it possible to allot a sizable portion of the gross national product to investment in the expansion of production equipment.

Another postwar development is the introduction of a social welfare program. According to the "Social Security Yearbook, 1963"²³ edited by the Federation of Health Insurance Societies, we have such varieties of

²³ Kenko Hoken Kumiai Rengokai: *Shakai Hoshō Nenkan, 1963* ("Social Security Yearbook, 1963," Tokyo Keizai Shimpōsha 1963).

social insurance as Health Insurance, Day Laborers' Health Insurance, Unemployment Insurance, Workmen's Accident Compensation Insurance, Welfare Pension Insurance, National Pension Insurance, Seamen's Insurance, and Mutual Aid Cooperatives; programs for public aid and social welfare including Livelihood Aid, Child Welfare, Child and Maternal Welfare, Disabled Persons Welfare, and Mentally Handicapped Persons Welfare; programs for public health and medical care such as Public Sanitation, Tuberculosis Prevention, and Environment Sanitation; and such social security programs as Unemployment Relief, Minimum Wage System, Private Retirement Pension System, Housing Loan and Construction Program, etc. The above-mentioned diagram on government expenditures shows that in 1960 the appropriations for social security and welfare, virtually nonexistent before, were larger than those for national defence.

Often our social security system is criticized in that, in spite of its varieties of insurance and other programs, it still provides little real help to the livelihood of the people. Notwithstanding this, the mere introduction of programs of this nature indicates a fundamental change in the way of thinking from prewar days. One finds in the new constitution the following provision: "All people shall have the right to maintain the minimum standards of wholesome and cultural life. In all spheres of life, the State shall use its endeavors for the promotion and extension of social welfare and security, and of public health." (Article 25). This provision defines the essential rights of the people, while, seen from the opposite side, it defines the duty of the state as well. An attitude which interprets the business of social welfare and security as an obligation of the state toward the people does not yet perfectly prevail in Japan, but one cannot deny that the above constitutional provision does supply a basis on which the Japanese nation will in future advance towards such an objective.

That democratic freedoms and rights in Japan have been extended far beyond their prewar confines also constitutes a great change. Though the present scope has narrowed somewhat in comparison with the years immediately after the war, the initial occupation policy has, as a whole, taken root in Japanese soil. Nowadays, the people or political leaders who

want to gain control of either the national or the local government must obtain the support of a majority of the nation or of the local inhabitants; though, on the other hand, the political party having the support of the majority of the people is allowed to control both the national Diet and the government and put into effect whatever policy it chooses.

The conservative forces, which have remained almost continuously in power since the war's end, have been instituting progressive policies and social welfare programs in piecemeal fashion with the purpose of winning the popular vote; and, as a result, have been enjoying the support of a greater part of the people. For example, the enactment of the Agricultural Fundamental Law and the Fundamental Law for Small Enterprises in recent years was an expression of the endeavors of the conservative Liberal Democrats to alleviate a difficult situation in the fields concerned and thus gain the support of the small businessmen and the peasant class. However, that these measures were undertaken by a conservative government is a reflection of the fact that not only the working class but also such social groups as peasants, small *entrepreneurs*, and workers in small- and dwarf-sized enterprises, have now become active as "pressure groups" and are exerting, thanks to democratic freedom, some influence on government policy.

Then there is the fundamental question of whether the problems arising from the intensification of competition, introduction of technical innovations, changes in the economic structure, business fluctuations, and so on, can be solved by the conservative forces within the framework of the present system; or whether they can be solved more easily and at a more basic level under the leadership of the progressive forces. The fact that a question of such fundamental importance has become a public issue in Japanese society is also a great change that must have its effect on Japanese capitalism.

Lastly, one must not overlook the changes in the international status of Japanese capitalism. In the years after World War I, and particularly after the world economic crisis of the 1930's, Japan was an independent imperialist power capable of competing and fighting with other great powers. This is not the case with the present-day Japan. What is more, as

we have noted in a previous section, she still depends a great deal on American economic aid, and this undoubtedly affects her present international position as compared to that of prewar years. However, one must admit that the progress of Japanese economy in recent years has been moving toward recovery. In fact Japan has achieved an economic growth that has attracted world-wide attention; the shift to heavy and chemical industries has progressed, and, in certain sectors of industry, her technological skill has reached the level of the highest standards in the world. At the same time, the housing problem, which at present seems insurmountable, and road conditions are among aspects of this country that invite immediate criticism even from those foreign visitors who are otherwise favorably disposed to things Japanese. Too little attention has been paid either to the people's living standards or the improvement of public facilities.

In her changed situation in world economy, Japan is now striving to liberalize her foreign trade and exchange. Or rather, it would be more accurate to say that, though for many years since the world economic crisis of the 1930's Japan's capitalism had been developing on the basis of a blocked economy, she has now been compelled to adopt a liberalization policy urged upon her by her domestic circumstances and by outside pressures. This is open to an interpretation that Japan's aim and ambition are now centered around the recovery of her prewar position in the world economy. On the other hand, however, it is quite possible that the changes in her domestic and external conditions, that is, the growth of democratic forces in Japan as well as of anti-imperialist forces in formerly oppressed nations, would probably place obstacles in the way of a re-emergence of an imperialist Japan.

No one can draw a definite blue print of a future Japanese economy. The only thing one can do is to propose a line of action which is deemed best suited to the existing conditions for the purpose of promoting democracy. Such a line of action must be based on the judgement that is most effective within the international and domestic conditions at a given moment—political, social, and economic conditions, including relations between various social forces, classes, and interest groups.